



MALAWI GOVERNMENT

REPORT OF THE AUDITOR GENERAL

ON THE

ACCOUNTS OF CITY, MUNICIPAL AND

DISTRICT COUNCILS

FOR THE

Financial Year Ended 30th June, 2020

National Audit Office
P.O. Box 30045
Capital City
Lilongwe 3

NATIONAL AUDIT OFFICE

VISION STATEMENT : To be an independence Supreme Audit Institution that promotes good governance.

MISSION STATEMENT : To provide assurance on accountability, transparency, integrity and value for money in the management of public resources to all stakeholders through quality audits.

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Ref

1st September, 2021

The Right Honourable Speaker
National Assembly
Private Bag B362
Capital City
Lilongwe 3

Through: The Honourable Minister of Finance, Economic Planning and
Development
P.O. Box 30049
Lilongwe 3
Malawi

Dear Madam,

Pursuant to the provision of Section 184 (2) of the Constitution of the Republic of Malawi and the Public Audit Act Cap 37:01, I have the honour to submit my report on the results of the audit of the Accounts of the Government of the Republic of Malawi for the year ended 30th June, 2020 for tabling in the National Assembly.

Yours faithfully,

THOMAS K. B. MAKIWA
Acting Auditor General

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ACRONYMS

CDF	:	Constituency Development Fund
DAHSP	:	Decent and Affordable Housing Subsidy Programme
DC	:	District Commissioner
DDF	:	District Development Fund
GRF	:	General Resource Fund
IFMIS	:	Integrated Financial Management Information System
IPC	:	Internal Procurement Committee
IPSAS	:	International Public Sector Accounting Standards
ISSAIs	:	International Standards of Supreme Audit Institutions
LGA	:	Local Government Act of 1998
MRA	:	Malawi Revenue Authority
NLGFC	:	National Local Government Finance Committee
ORT	:	Other Recurrent Transactions
PAA	:	Public Audit Act of 2003
PFMA	:	Public Finance Management Act of 2003
PPDPA	:	Public Procurement and Disposal of Public Assets no 41 of 2016

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EXECUTIVE SUMMARY

In accordance with Section 6 of the Public Audit Act (PAA) of 2003 and Section 54(1) of the Local Government Act of 1998, I have, on behalf of the National Assembly, examined and enquired into other financial information of City, Town and District Councils for the year ended 30th June, 2020. This audit was financially supported by World Bank under a project called Governance Enable Service Delivery (GESD). The project amongst others is aimed scaling up accountability status of Councils. Therefore, we were approached if the Bank could use our report in conducting financial management assessment of some of Councils. The results of the audit were going to be used by the Bank to disburse grants only to those Councils whose worst audit opinion was just a qualified one.

Scope of Audits

I have conducted Financial and Compliance audit on thirty-five (35) Councils in Malawi for financial year ended 30th June, 2020. The audits were performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audits were intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions as well as compliance with all applicable laws and regulations. Although the audits were conducted in accordance with ISSAIs, they do not guarantee absolute accuracy of the detection of non-compliance with laws and regulations, financial irregularities and fraud.

However, the PAA empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Similarly, substantive tests were made on selected areas of the Councils' other financial information in order to find out whether the Councils funds were expended economically and in conformity with the wishes of the National Assembly.

Audit Methodology

The core objective of the external audit function is to ensure accountability of public funds. In order to discharge this responsibility, my approach to audit involves the following:—

- Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
- Evaluation and testing of the accounting and internal control systems;
- Testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
- Reporting the audit findings based on the audit procedures performed and evidence gathered.

Findings

The findings have been classified into eight (8) categories which have been summarized as follows:

i. Expenditure Management

- Unaccounted for Funds;
- Expenditures made without following procedures (Irregular expenditure);
- Misallocation of Funds (funds spent on different functions other than which parliament approved);
- Failure to remit PAYE taxes to MRA;
- Failure to process transactions through IFMIS;
- Failure to administer deceased estates;
- Embezzlement of deceased estate funds; and
- Failure to recover loans and advances;

ii. Financial Statement related issues

- Financial Statements Balances without notes or with note(s) different from the amount on the face of the Financial Statements;
- Cash and Bank- Discrepancies in Amounts Between Financial Statements and Bank Statements;
- Wrong Amount of Cash and Cash Equivalent shown in the financial statements;
- Non-Adjusting Revaluation of Assets wrongly recognised in the financial statements of the current period;
- Differences in the figures presented in the Statement of Comparison of Budget & Actual and Cashbook;
- Failure to depreciate, to keep fixed Asset Register and to revalue;
- Failure to depreciate Non- Current Assets;
- Failure to include depreciation charges opening balances from prior year Statement of Financial Position;
- Failure to keep fixed asset register;
- Failure to Revalue Council Assets;
- Non-Current Assets not in the Financial Statements;
- Differences Between the Ledger and Bank Account Balance;
- Failure to Safeguard Council Property;
- Financial Statement Balances Drawn from Outside IFMIS;
- Ownership Documents for Property Not Produced;

- Lack of title deeds for Council's assets;
- Cost of Non-Current Assets without supporting documentation/ records;
- Non -Current Assets Written off without Authority;
- Non-Provision of Supporting Schedules;
- Cashbook Containing Payments from July 2020 Without Disclosure Notes in The Financial Statements;
- Cash and Cash Equivalents- Missing Information; and
- Failure to provide schedules for Capital Contributed by Other Government Entities

iii. Procurement

- Procurement of Goods And Services Without IPDC approval

iv. Project Management

- Projects Implemented Not in The District Development Plan;
- Over Expenditure On Borehole Projects;
- CDF projects carried without Project Application Form;
- CDF without Project Implementation Committee (PIC) Involved;
- Under Utilization of the Constituency Development Fund;
- CDF Project Not Implemented;
- Development Funds Spent On Operational Activities;
- Items/Services Delivered On Site Without Witnesses from The Community;
- Substandard Works;
- Untraceable CDF Projects;
- Incomplete works;
- CDF Projects not Produced for Review;
- Maintenance of Old Borehole under Borehole Projects;
- Awarding Contracts to unregistered Contractors;
- Abandoned CDF Project (Phokera Police Unit)/ Nkando police Unit;
- Failure to Produce Title Deeds for Audit Inspection;
- Contracts not Presented for Audit Inspection(Borehole);
- IPDC Minutes Not Presented for Audit Review;
- Failure to Present Formal Contract Agreement for Audit Inspection;
- Works fully paid for but not Completed; and
- Contracts not Presented for Audit Inspection(CDF)

v. Receivables Management

- Failure to collect revenue from debtors for over two years;
- Non -Payment of Receivables;
- Receivables without invoices;
- Invoices not produced for audit Inspection; and
- Outstanding Accounts Receivables (Debtors)

vi. Record Management

- Money not entered in the paper money register;
- Money receipted not recorded in the third party money register;
- Purchases made outside contract agreement;
- Failure to Comply to CDF Guidelines in Awarding Contract for Boreholes;
- Failure to produce CDF progress reports;
- Non-Compilation of Annual Reports by Members of Parliament;
- General Receipts Not Recorded in the Security Document Register;
- Payment Vouchers Made Without Supporting Documents;
- Payment Vouchers not presented for Audit;
- Failure to Record Deceased Funds in the Cashbook;
- Failure by the Global HRM System to Capture Properly Outstanding Balances for Advances; and
- Monthly Receipts and Payments Statements for Deceased Estate Not Produced

vii. Revenue Management

- Under Collection of Revenue;
- Revenue not accounted for;
- Underbanked revenue;
- Revenue spent at source;
- Failure to Present General Receipt Books for Revenue Collected;
- Market fee deposit slips without Revenue Collecting Sheets Summary; and
- Delivery Notes for Market Fee books not Produced for Audit Inspection

viii. Payables Management

- Failure to Provide Supporting Documentation for Accounts Payables;
- Invoices for Payables not provided for audit; and
- Some Payables Shown in the Financial Statements without Justification of Documentary Evidence

General Recommendations

- (1) The Councils should speed up the process of getting title deeds for all their assets and thereafter including them in the books and financial statements
- (2) The NLGFC should be strict in ensuring that the Directors of Finance and accounting staff are maintaining proper books of account and adhering to the IPSAS accrual stages two (2) and three (3) as the case may be for each Council.
- (3) There is need to improve on the presentation of Financial Statements, especially on the notes to include comparative figures for the previous period.
- (4) The Councils need to strictly adhere to the Finance, Accounting and Procedures Manual on all aspects of record keeping and financial reporting.
- (5) Disciplinary procedures should be established for officers who deliberately violate accounting reporting procedures.
- (6) Each payment of Subsistence Allowance which is irregular should be investigated
- (7) All funds which have not been accounted for should be accounted for and the responsible officers dealt with in accordance with MPSR
- (8) All irregular expenditures should be probed further and responsible officers dealt with in accordance with MPSR
- (9) All those responsible for misallocation of funds without following the due process should face disciplinary action.
- (10) Investigation should be instituted for all payments which were made for non-existent and incomplete CDF projects.
- (11) All unjustified overpayments need to be investigated
- (12) Councils that failed to process some transactions through IFMIS should be probed as to why this was not done and appropriate action taken.
- (13) Councils that failed to remit PAYE to MRA need to explain and justify this anomaly
- (14) Money which is due to a deceased estate and has not been paid, must be paid immediately.
- (15) The Council that failed to collect loans and advances should come up with a plan on how they will collect them.
- (16) The Controlling Officers need to ensure henceforth that Fuel registers and logbooks are regularly checked and monitored and that each Motor Vehicle has a Maintenance File which is regularly updated and reviewed by Management.

- (17) All procurement flaws should be investigated.
- (18) Controlling Officers must ensure strict adherence to procurement laws and regulations
- (19) All project management flaws especially on CDF projects must be investigated.
- (20) The Controlling Officers must ensure strict adherence to CDF and other Funds guidelines and need to demand monthly reports on the same, taking disciplinary action against any officer in violation and reporting to law enforcement agencies for any member of parliament in violation.
- (21) The song of poor record keeping has been sang for far too long. Any officer responsible for missing vouchers, failure to attach necessary supporting documents should face disciplinary action.
- (22) The Controlling Officers must on a monthly basis monitor all expenditure to ensure that all payment vouchers have supporting documents intact and that all payment vouchers for that particular month are intact.
- (23) The Controlling Officers must within a month of receiving this report, come up with a plan on how they will collect outstanding debts from their clients.
- (24) All revenues not banked should be banked within seven days of receiving this report
- (25) All revenues not Accounted for must be accounted for within a month of receiving this report.
- (26) All revenue related documents not produced for audit inspection must be produced within 14 days of receiving this report.
- (27) All officers who did not account for revenue under their care must face disciplinary action.
- (28) The Controlling Officers need to ensure henceforth that Stores registers are on a monthly basis checked and monitored and reviewed by Management.
- (29) The Controlling Officers should always ensure that all queried issues by the auditors are addressed during the period or in isolated cases during the fourteen (14) day window period
- (30) Presentation and format of financial statements should be given a thorough and quality check by both the Council and NLGFC
- (31) Issues that qualifies the accounts should be given high priority in terms of resolving the matters and should never be repeated
- (32) Performance Based Financial Disbursement should continue to be a criterion for aid, grant, funding or any form of financial support to the Council since it has proven to be an effective motivational drive for financial management

Acknowledgement

I wish to place on record my profound gratitude and appreciation to staff in my office, auditors, who carried out their duties during the audit of the Councils.

I also wish to acknowledge the assistance and cooperation rendered by the Ministry of Finance, Economic Planning and Development, the Accountant General, Ministry of Local Government and Rural Development, the National Local Government Finance Committee, District Commissioners, Chief Executive Officers and their staff during the period under audit. The cooperation enabled me to obtain information and documentation for the audit in a timely manner.

Special thanks and appreciation to the World Bank through the Governance to Enable Service Delivery (GESD) Project for providing the finances for this audit.

PART I

BACKGROUND AND GENERAL INFORMATION

Audit of Public Accounts

1. I am required under Section 184 (1) of the Constitution of the Republic of Malawi of 1994 to audit and report on the public accounts of the Government of Malawi including Local Authorities and to exercise such other powers in relation to the public accounts and accounts of other public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principle duties of my office.
2. Section 184 (2) of the same Constitution requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Although Section 15 of the PAA requires me to forward the report to the President and to the Speaker of National Assembly, this is somehow inconsistent with the Constitution as explained in paragraph 1 above. Consultations with the Law Commission and relevant stakeholders have been initiated to have the inconsistency cleared. The issue is still work in progress
3. The PAA requires, inter alia, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required under Section 6 (4) (d) of the same Act to determine whether the procedures and systems of internal control of each Ministry, Department, Agency and public authority or body do ensure that: -Revenue is properly assessed and collected;
4. Section 6 (3) of the PAA requires the Auditor General to audit and examine transactions, books and accounts and other financial records associated with any project, programme, and any other activity receiving funding in whole or in part from public money, public resources which in my opinion justifies further investigations.
5. In fulfilling these duties, powers and responsibilities lawfully conferred on me under Section 7 (1) of the PAA, I am required and any person authorized by me to:—
 - (a) Have full access at all reasonable times to all documents, books and accounts, public funds, public securities, government contracts, and books and accounts relating thereof and subject to audit, and to any place where they are kept;
 - (b) Request any person to supply any information or answer any questions relating to documents, books and accounts, money, or operations subject to audit and examination by me;
 - (c) Give notice in writing, requiring any person having possession or control of any documents, books and accounts subject to audit and

examination by me to deliver all or any of them at a time and place and to such person specified in the notice;

- (d) Inspect, measure or test any real or personal property to which any Government contract relates; and
- (e) Enter any land, building, or place, other than a dwelling house, where a government contract is being performed that is subject to audit and examination by me

Compilation and Submission of Financial Statements

- 6. Section 53 (1) of the Local Government Act of 1998, requires all the Councils to keep proper books of accounts and other records in relation thereto and to balance their accounts for each year and produce Statements of final accounts within six months from the end of each financial year. Subsection (2) of the same requires the Councils to submit the final accounts to the National Local Government Finance Committee which is shall forward a copy to me.

Controlling Officer's Responsibility

- 7. In terms of LGA as read together with Section 10 of the PFMA, it is the Controlling Officer's responsibility to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. The Act also requires the Councils to keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Councils and enable them to ensure that the financial statements comply with the Public Finance Management Act, Public Procurement Act, Public Audit Act, Financial Management and Accounting Procedures for District Councils, District Development Fund Management Manual and other relevant Acts of Parliament.
- 8. In preparing the financial statements, the Controlling Officers have the following responsibilities:—
 - (a) Maintenance of proper accounting records;
 - (b) Selection of suitable accounting policies and applying them consistently;
 - (c) Making judgments and estimates that are reasonable and prudent;
 - (d) Compliance with applicable standards when preparing financial statements subject to any material departures being disclosed and explained in the financial statements;
 - (f) Preparation of financial statements on a going concern basis (sustainability of service) unless it is inappropriate to presume that the Council will continue in business.

9. It is also the responsibility of the Controlling officer to ensure that:—
- (a) Public funds are only used to the extent, and for the purpose intended by the National Assembly;
 - (b) All necessary precautions are taken to safeguard the collection and custody of public money;
 - (c) All necessary precautions are taken to safeguard public resources;
 - (d) All expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste;
 - (e) There is no over-expenditure or over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or over-commitment; and
 - (f) The collection of public moneys is in accordance with approved plans and the estimates.

Scope of Audit

10. In compliance with Section 13 of the PAA which requires me to use Generally Accepted Auditing Standards, the audit of the Councils' accounts was performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audit was intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud. The audit of the financial statements and compliance was conducted in all thirty-five Local Authorities in Malawi for financial year ended 30th June, 2019.
11. The PAA empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Substantive tests were made on selected areas of Councils' accounts in order to form an opinion as to whether or not Councils money is expended economically, and in conformity with the wishes of the National Assembly.

Audit Methodology

12. The core objective of the external audit function is to ensure accountability of public funds. The Public Audit Act empowers me to use discretion and make tests in any particular case. To discharge this responsibility, the audit approach in this assignment involved the following:—
- Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;

- Evaluation and testing of the accounting and internal control systems;
- Testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
- Reporting the audit findings based on the audit procedures performed and evidence gathered.

Audit Reports

13. Section 14 (1) of the PAA requires the Controlling Officer, Head of an agency, statutory body or other affected person in respect of any matters that may relate to an audit, to respond to me within fourteen (14) days of receiving the report.

Audit Opinions

14. For the year ended 30th June 2020, I issued on an unqualified opinion on the following Councils; Blantyre City and Mangochi Municipal.

I also issued qualified (Except for) opinions on the following Councils; Balaka District, Chikwawa District, Chiradzulu District, Chitipa District, Dedza District, Dowa District, Karonga District, Kasungu Municipal, Kasungu District, Likoma District, Lilongwe City, Lilongwe District, Machinga District, M'mbelwa District, Mulanje District, Mwanza District, Mzuzu City, Neno District, Ntcheu District, Ntchisi District, Phalombe District, Rumphi District, Salima District, Zomba City, Mangochi District, Nsanje District, Zomba District and NkhataBay District.

I also issued adverse opinions on the following Councils; Blantyre District, Luchenza Municipal, Mchinji District, Nkhotakota District and Thyolo District.

PART II

STRUCTURE AND OVERALL PERFORMANCE

Financial Management and Administration Policies

15. 15. The Local Authorities' Financial Management is governed by the Local Authorities Accounting and Financial Management Procedures Manual of May, 2009. However, the following prevailing legal instruments provide the overarching framework: -
- The Constitution of the Republic of Malawi, 1994;
 - The Public Finance Management Act (PFMA), 2003;
 - The Public Audit Act (PAA), 2003;
 - The Public Procurement and Disposal of Assets Act (PPDA), 2017;
 - The Local Government Act (LGA), 1998;
 - Local Authority Accounting and Procedures Manual 2014;
 - The Corrupt Practices Act (CPA), 1998; and
 - By-laws of the Local Authority

Budgeting process

16. The Budgeting guidelines used in the Local Authorities were developed by Ministry of Finance, Economic Planning and Development. These are further elaborated by the NLGFC to include locally generated revenues, development partners grant to the Local Authorities and sectoral guidance for the planning period. The budgeting process undergoes several stages which are shown in Figure 1 below:

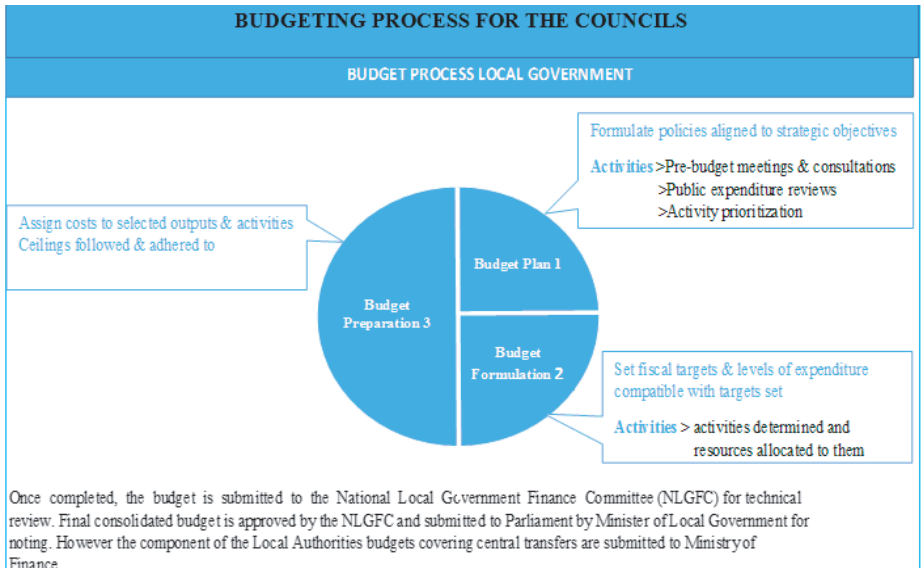


Figure 1: Budgeting process for the Councils

17. Budget planning

- Involves formulating policies aligned to strategic objectives and priorities at both micro and macro level; and
- Activities include Pre-budget meetings and consultations, public expenditure reviews and activity prioritization.

18. Budget Formulation

- Includes setting fiscal targets and levels of expenditure which are compatible with the set targets; and
- Activities are then determined in order of their competing needs and finally resources are allocated to those activities.

19. Budget Preparation

The figure below depicts the budget preparation process for local Councils.

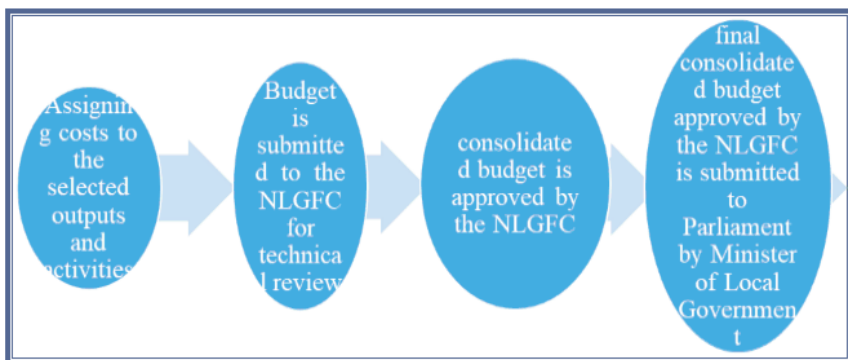


Figure 2: Budget preparation for Councils

Accounting and financial reporting for local authorities

20. The functions of the National Local Government Finance Committee in relation to the accounting and financial reporting for Local Authorities are:
- To receive all estimates of revenue and all budgets of local authorities;
 - To prepare a consolidated budget for all local authorities' annual revenue and expenditure estimates in consultation with the Ministry of Finance, Economic Planning and Development for presentation to the National Assembly by the Minister of Local Government and Rural Development;
 - To examine and supervise accounts of local authorities in accordance with any Act of
 - Parliament, subject to recommendations of the Auditor General;

- To make recommendations relating to the distribution of funds allocated to local authorities by Central Government and to vary from time to time the amounts of allocation in accordance with economic realities on the ground; and
- To make application to the Minister for supplementary funds where necessary.

Analysis of Findings

21. The findings from the Financial and Compliance audit of the Local Authorities for the year ended 30th June, 2020, have been classified into eight (8) categories for ease of understanding. The analysis has been done using charts. The charts paint a picture in summary of the extent of non-compliance as well as failure to follow the International Public Sector Accounting Standards when preparing Financial Statements.

The eight (8) Categories are as follows:

1. Expenditure Management irregularities
2. Financial Statement related issues
3. Procurement irregularities
4. Project Management Irregularities
5. Receivables Management Irregularities
6. Record Management Irregularities
7. Revenue Management Irregularities
8. Payables Management Irregularities

(a) Expenditure management

This occupies the largest chunk of the findings. As such it has been sub-classified as follows:

- Unaccounted for Funds
- Expenditures made without following procedures (Irregular expenditure)
- Misallocation of Funds (funds spent on different functions other than that which parliament approved)
- Failure to remit PAYE taxes to MRA
- Failure to process transactions through IFMIS
- Failure to administer deceased estates
- Embezzlement of deceased estate funds
- Failure to recover loans and advances

I now present the charts on each of the findings

(ii) Bar Chart of Expenditure Management-Failure to Account

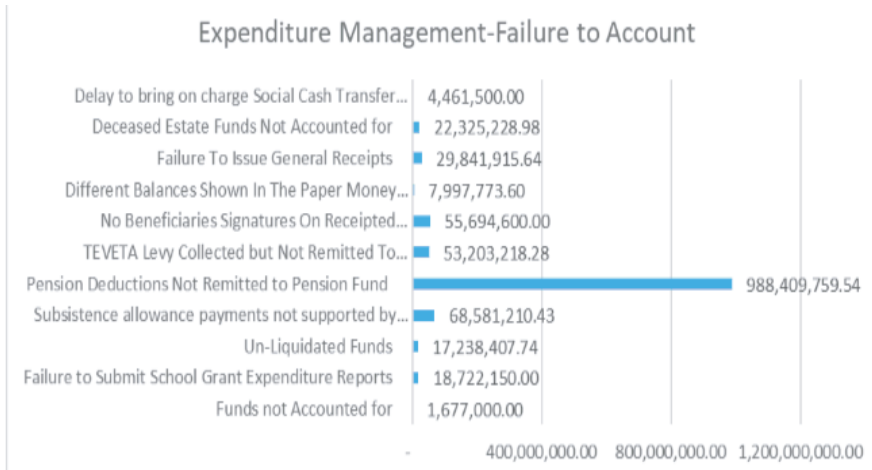


Figure 3: Expenditure Management-Failure to Account

(iii) Bar Chart of Expenditure Management-Irregular Expenditure

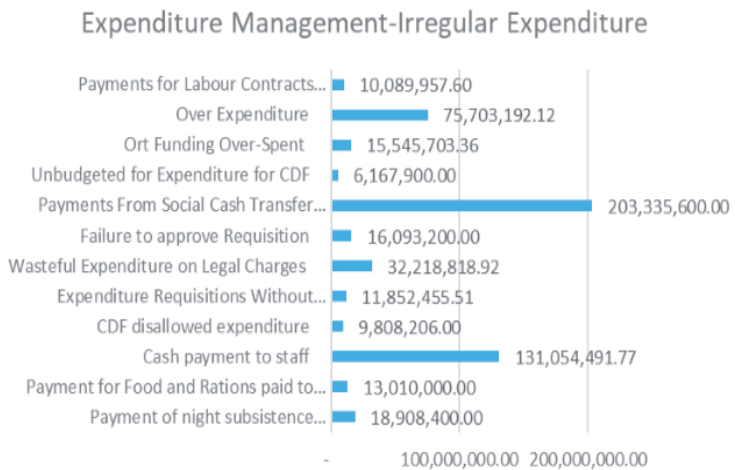


Figure 4: Expenditure Management-Irregular Expenditure

(iv) Bar Chart of Expenditure Management-Misallocation of Funds

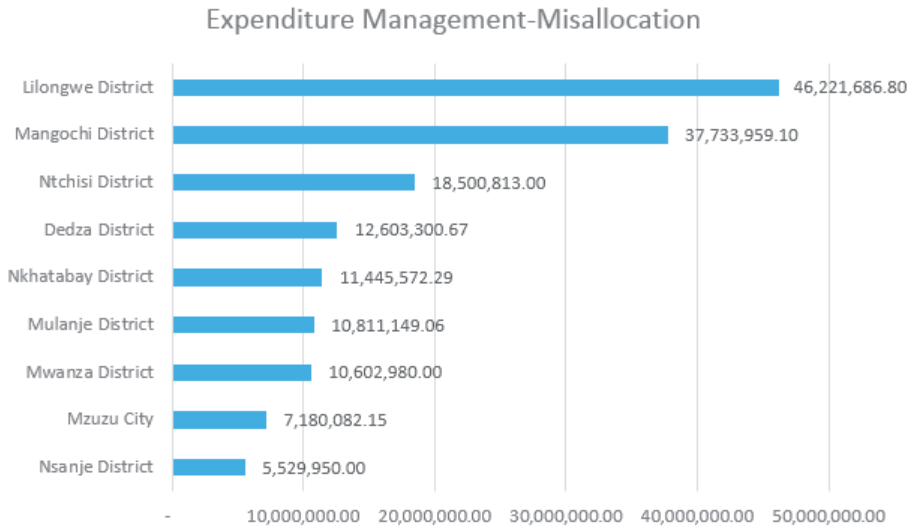


Figure 5: Expenditure Management-Misallocation of Funds

(ix) Bar Chart of Expenditure Management-Failure to Remit Tax to MRA

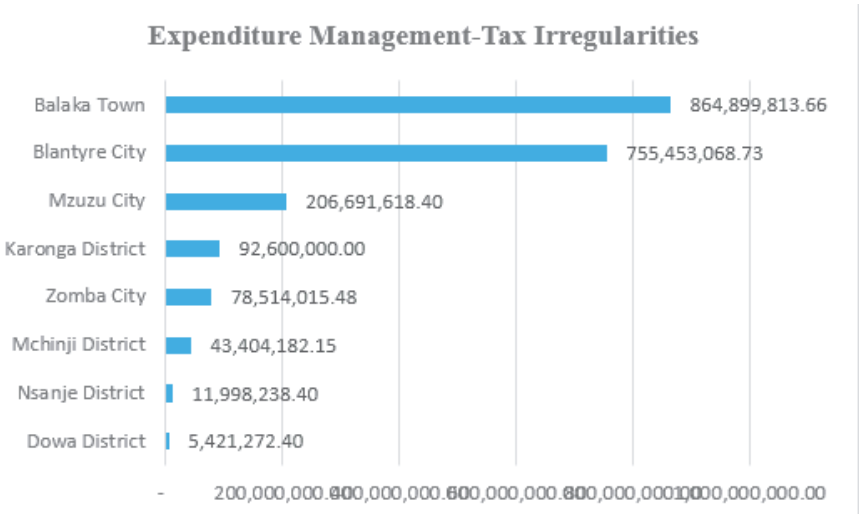


Figure 6: Expenditure Management- Failure to Remit Tax to MRA

(x) Bar Chart of Expenditure Management- Miscellaneous Irregularities

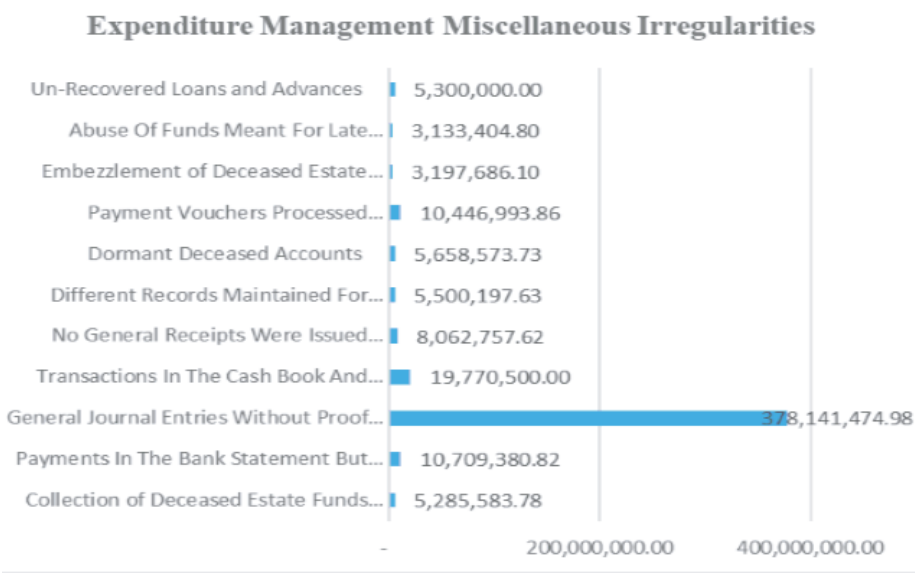


Figure 7: Expenditure Management- Miscellaneous Irregularities

(b) **Financial Statement related issues**

The findings in this category relate to the shortcomings of the Councils in preparing financial reports that comply with international best practice. Qualified audit opinions were issued to most Councils as a result of these deficiencies. These irregularities have been sub classified into four (4) categories as follows:

- i. Differences between the Financial Statements and Notes
- ii. Failure to depreciate, to keep fixed Asset Register and to revalue assets
- iii. Failure to provide supporting Schedules to the Financial Statements &
- iv. Miscellaneous irregularities

I will now present a chart depicting the figures under each subcategory;

(i) Bar Chart on Financial Statement Related Irregularities-Differences between Notes and Financial Statement Figures

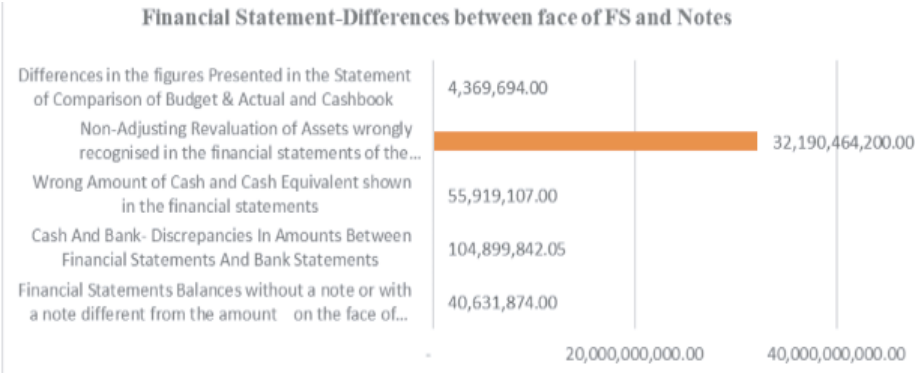


Figure 8: Financial Statement Related Irregularities-Differences between Notes and FS figures

(ii) Bar Chart on Financial Statement Related Irregularities-Failure to provide supporting schedules

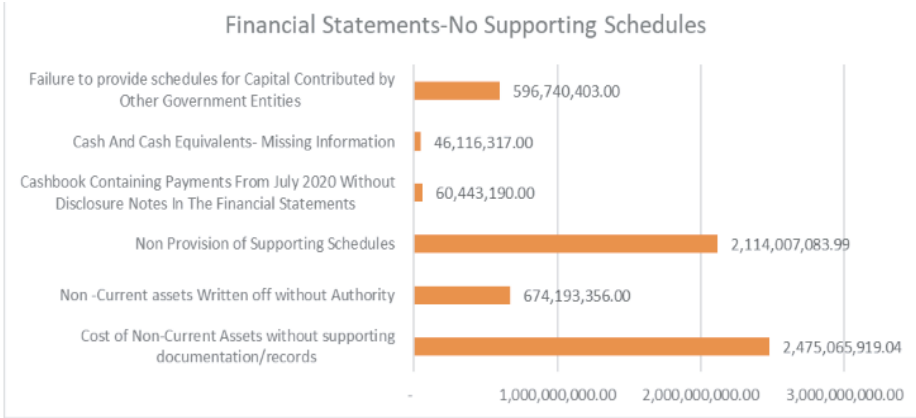


Figure 9: Financial Statement Related Irregularities-Failure to provide supporting schedules

(iii) Bar Chart on Financial Statement Related Irregularities-Failure to depreciate, to keep fixed asset register and to Revalue Assets

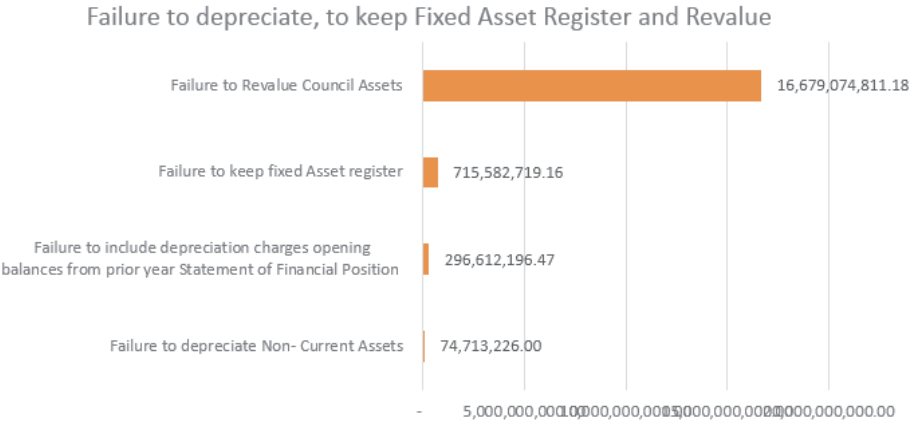


Figure 10: Financial Statement Related Irregularities- Failure to depreciate, to keep fixed asset register and to revalue Assets

(iv) Bar Chart on Financial Statement Related Irregularities-Miscellaneous

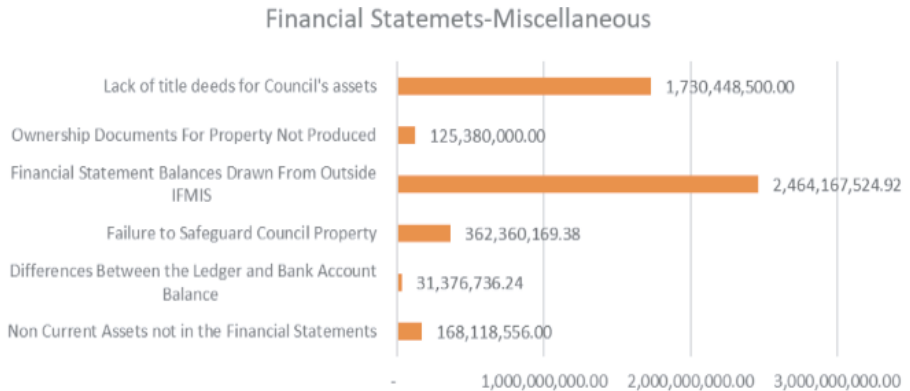


Figure 11: Financial Statement Related Irregularities-Over- Miscellaneous

(c) Procurement Irregularities

The findings in this category relate to the shortcomings of the Councils complying with procurement laws and regulations.

Bar Chart on Procurement Irregularities

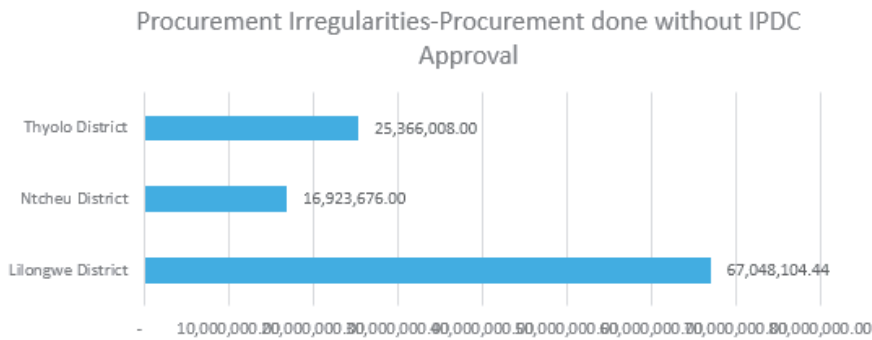


Figure 12: Procurement Irregularities

(d) Project Management Irregularities

The findings in this category relate to the shortcomings of the Councils in managing projects such as those under Constituency Development Fund, District Development Fund among many of those implemented by the Councils.

Bar Chart on Project Management Irregularities

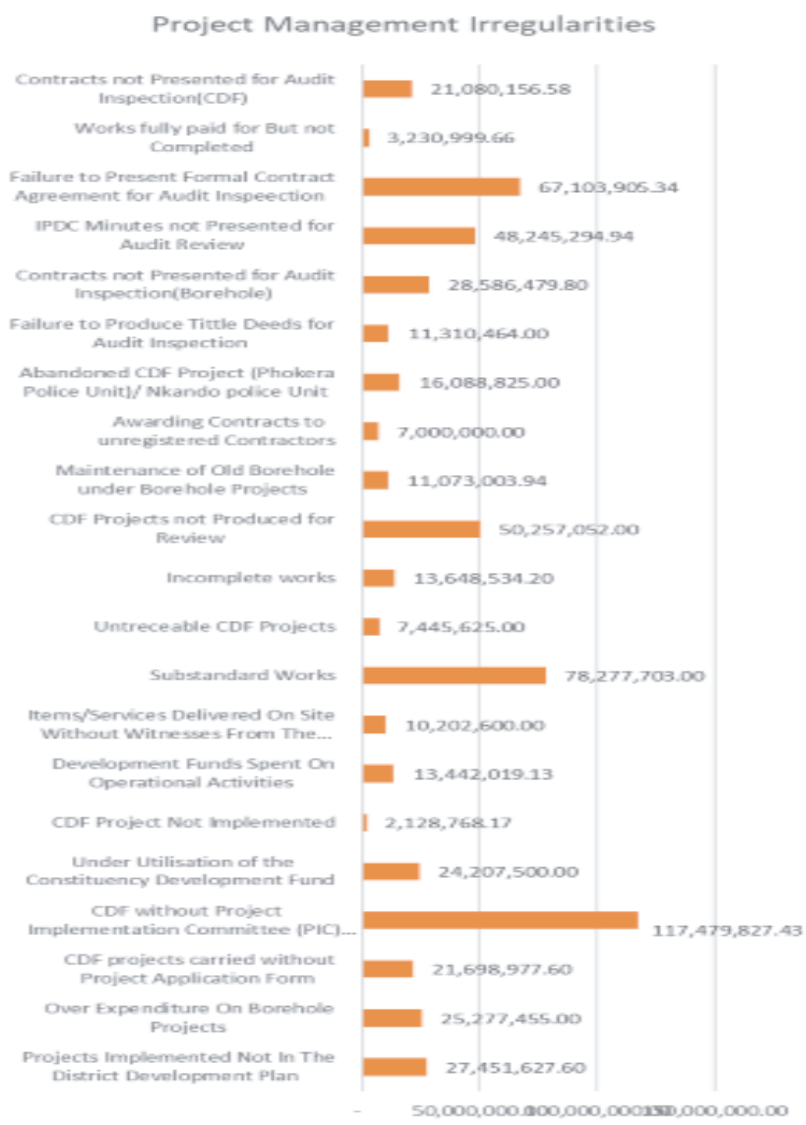


Figure 13: Project Management Irregularities

(e) Record Management Irregularities

The findings in this category relate to the shortcomings of the Councils in maintaining accounting and other financial records.

Bar Chart on Record Management Irregularities

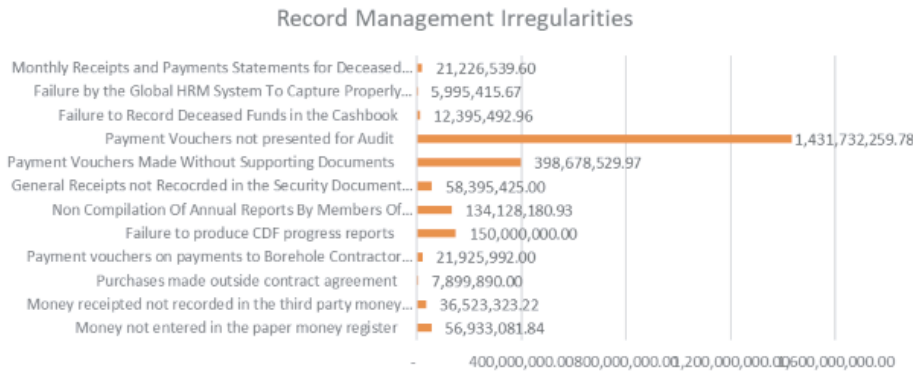


Figure 14: Record Management Irregularities

(f) Receivables Management Irregularities

The findings in this category relate to the shortcomings of the Councils in Managing debtors.

Bar Chart on Receivables Management Irregularities

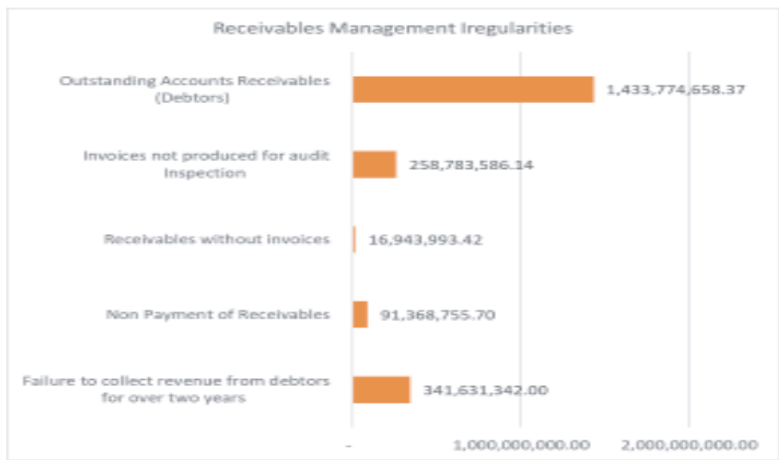


Figure 15: Receivables Management Irregularities

(g) Payables Management Irregularities

The findings in this category relate to the shortcomings of the Councils in managing payments to goods and services providers.

Bar Chart on Payables Management Irregularities

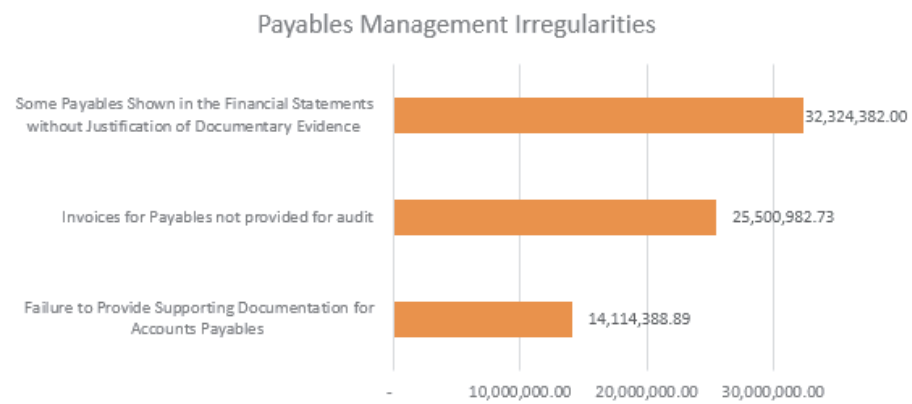


Figure 16: Payables Management Irregularities

(h) Revenue Management Irregularities

The findings in this category relate to the shortcomings of the Councils in collecting, recording and accounting for revenue.

Bar Chart on Revenue Management Irregularities

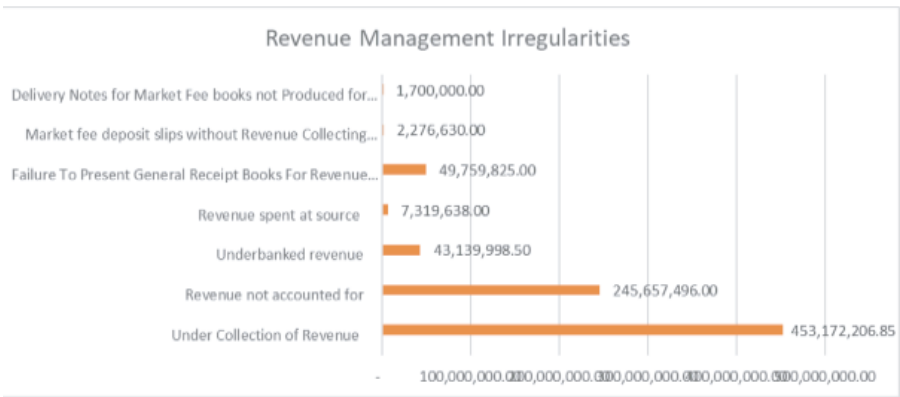


Figure 17: Revenue Management Irregularities

Local Councils' General Resource Fund Performance For 2020

22. The 2020 General Resource Fund (GRF) for Local Councils had a total of approved budget of K248billion which was revised to K283 billion. Actual Expenditure was K billion resulting into an under expenditure of K269 billion. This translates to 95 percent expenditure over revised budget. There is a K51billion increase in GRF expenditure by Local Councils from the 2019 figure. Table 1 below has the details.

Table 1: Local Councils' General Resource Fund Performance For 2020

Council Name	Vote	Approved Budget	Revised Budget	Actual Expenditure	Variance	Revised Budget Utilisation
		MK'000	MK'000	MK'000	MK'000	
1 Blantyre City	601	586,994	852,551	585,316	-	100
2 Lilongwe City	602	481,768	697,867	478,633	-	100
3 Mzuzu City	603	233,599	469,897	286,662	-	100
4 Zomba City	604	142,158	314,502	141,220	-	100
5 Balaka Town	804	-	-	-	-	-
6 Kasungu Municipality	701	31,055	53,780	30,949	-	100
7 Luchenza Municipality	70	34,486	57,211	34,380	-	100
8 Mangochi Town Council	807	34,443	57,149	34,318	-	100
9 Salima Town	808	-	-	-	-	-
10 Balaka District	901	6,912,319	13,272,122	7,619,784	217,994	97
11 Blantyre District	902	12,109,702	15,544,516	14,951,751	47,945	100
12 Chikwawa District	903	8,342,370	8,080,993	3,117,887	6,109,743	34
13 Chiradzulu District	904	7,099,536	6,015,982	6,795,264	59,809	99
14 Chitipa District	905	4,775,809	4,715,305	5,509,121	49,615	99
15 Dedza District	906	10,226,284	10,581,238	10,804,062	748,187	94
16 Dowa District	907	11,523,142	19,533,470	11,280,113	914	100
17 Karonga District	908	6,366,337	6,633,223	7,318,451	(92,091)	101
18 Kasungu District	909	12,333,020	12,722,960	14,128,814	(174)	100
19 Likoma District	910	563,022	725,929	584,257	112	100
20 Lilongwe District	911	26,967,056	30,026,200	31,990,488	1,733	100
21 Machinga District	912	9,304,065	9,355,752	10,446,754	0	100
22 Mangochi District	913	13,471,376	13,782,964	15,431,930	6,570	100
23 Mchinji District	914	8,454,358	9,066,193	9,131,846	730,909	93
24 M'mbelwa District	915	19,197,022	27,261,542	19,334,600	59,533	100
25 Mulanje District	916	12,022,735	10,748,443	11,164,432	443,703	96
26 Mwanza District	917	2,805,544	2,689,092	3,157,330	12,396	100
27 Neno District	918	2,913,026	3,031,624	3,202,252	138,659	96
28 NkhataBay District Council	919	5,603,523	5,539,912	6,529,335	15,502	100
29 Nkhota kota District	920	6,398,099	6,454,500	7,349,558	68,817	99
30 Nsanje District	921	5,117,918	5,242,205	5,566,352	509,586	92
31 Ntcheu District	922	9,342,352	9,154,162	10,362,988	75,087	99
32 Ntchisi District	923	5,272,806	5,237,148	5,984,707	84,801	99
33 Phalombe District	924	6,121,874	9,948,376	7,066,250	0	100
34 Rumphu District	925	4,572,773	4,801,007	5,566,602	30,940	99
35 Salima District	926	7,057,366	8,207,368	8,103,209	21,533	100
36 Thyolo District	927	9,810,820	10,004,773	11,192,288	3,910	100
37 Zomba District	928	11,796,378	12,449,218	13,691,954	0	100
Total		248,025,133	283,329,172	268,973,858	9,345,734	96.64

PART III

AUDIT RESULTS OF THE COUNCILS

General audit observations

23. An audit of financial statements of the Local Councils for the year ended 30th June 2020 was completed in July, 2021. Between Mid-July, 2021 and early August, 2021, I engaged the Controlling Officers (District Commissioners and Chief Executive Officers) to provide responses to the observations raised in their respective management letters. The findings included in this report relate to the observations that were not satisfactorily responded to in the Management Letters within the statutory grace period of fourteen (14) days according to Section 14(1) of the Public Audit Act (2003). Therefore, observations of some Councils may not necessarily appear in this report because they were resolved at management level or during the grace period.

The audit which was financial and compliance in nature was conducted in all the thirty-five (35) Councils namely Balaka District, Blantyre City, Blantyre District, Chikwawa District, Chiradzulu District, Chitipa District, Dedza District, Dowa District, Karonga District, Kasungu District, Kasungu Municipality, Likoma District, Lilongwe City, Lilongwe District, Luchenza Municipal, M'mbelwa, Machinga District, Mangochi District, Mangochi Town, Mchinji District, Mulanje District, Mwanza District, Mzuzu City, Neno District, NkhataBay District, Nkhotakota District, Nsanje District, Ntcheu District, Ntchisi District, Phalombe District, Rumphi District, Salima District, Thyolo District, Zomba City and Zomba District.

There were a number of irregularities that were found during the audit which are summarized in the paragraphs below:

Expenditure Management Irregularities

24. The audit has revealed that most Councils failed to manage expenditure in accordance with provisions in the Public Finance Management Act, 2003 and other financial regulations such as Treasury Instructions, Desk Instructions, CDF Guidelines, DDF guidelines and LA Accounting and FM procedures Manual among others. This was observed through irregularities such as: Unjustifiable subsistence allowances, Unaccounted for Funds, Expenditures made without following procedures (Irregular expenditure), Misallocation of Funds (funds spent on different functions other than which parliament approved), Failure to remit PAYE taxes to MRA, Failure to process transactions through IFMIS, Failure to administer deceased estates, Embezzlement of deceased estate fund and Failure to recover loans and advances

Preparation of Financial statements.

25. Local Government Act of 1998 Sections 53 (1) requires all Councils to keep proper books of accounts and other records from which financial statements or final accounts will be produced. The audit has revealed that most Councils had difficulties in preparing Financial Statements in accordance with generally accepted Accounting principles i.e. in accordance with Accrual stages two (2) and three (3) as the case was. Only two (2) out of the 35 Councils had a clean audit opinion (unqualified) while a majority of twenty-eight (28) Councils were issued with a qualified opinion, and five (4) Councils were issued with an adverse audit opinion. There were a number of irregularities that contributed to such unfavourable audit opinion as follows; Financial Statements Balances without a note or with a note different from the amount on the face of the Financial Statements, Cash and Bank- Discrepancies in Amounts Between Financial Statements and Bank Statements, Wrong Amount of Cash and Cash Equivalent shown in the financial statements, Non-Adjusting Revaluation of Assets wrongly recognised in the financial statements of the current period, Differences in the figures Presented in the Statement of Comparison of Budget & Actual and Cashbook, Failure to depreciate, to keep fixed Asset Register and to revalue, Failure to depreciate Non- Current Assets, Failure to include depreciation charges opening balances from prior year Statement of Financial Position, Failure to keep fixed Asset register, Failure to Revalue Council Assets, Non-Current Assets not in the Financial Statements, Differences Between the Ledger and Bank Account Balance, Failure to Safeguard Council Property, Financial Statement Balances Drawn from Outside IFMIS Ownership Documents for Property Not Produced, Lack of title deeds for Council's assets, Cost of Non-Current Assets without supporting documentation/records, Non -Current Assets Written off without Authority, Non-Provision of Supporting Schedules, Cash and Cash Equivalents- Missing Information, Failure to provide schedules for Capital Contributed by Other Government Entities. Additionally, most Councils presented notes without comparative figures for the previous year.

Records, Receivables and Payables Management

26. Treasury Instructions (2004), Section 5.9(a) states that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit Office.

Contrary to this requirement, it was observed that a number of payment vouchers were not presented for audit inspection, a number of supporting documents were not attached to the payment vouchers at the time of audit.

It was also observed that most Councils had problems in managing their debtors. Most debts remain uncollected by the Councils. In addition, there were problems in paying suppliers by a number of Councils.

27. Apart from the observations above, the following were also noted:
- There were a number of problems to do with billing, collection, banking and accounting for revenue;
 - Some procurements were done without involving IPDC; and
 - The Councils also did not manage CDF projects properly.

SPECIFIC AUDIT FINDINGS

BALAKA DISTRICT COUNCIL

28. An audit of Balaka District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Failure to Produce Title Deeds for Audit Inspection: K11,310,464.00

Public Audit Act (2003), Section 7 (1) (a) requires the Auditor General and every person authorized by him to have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept.

An inspection of the fixed asset register and financial statements revealed that the Council owns land and buildings amounting to K11,310,464.00 as at 30th June, 2020. However, the title deeds were not provided to the audit team for review.

(b) Failure to Remit Taxes to Malawi Revenue Authority: K864,899,813.66

Section 10 (1) of Income Tax (PAYE) (Deduction and Payment) Rules of 2018 as read together with Section 6 (1) of the Taxation (Withholding Tax) (Information, Deduction and Payment) Regulations (2018) require that Pay As You Earn (PAYE) and withholding taxes be remitted to Malawi Revenue Authority (MRA) within fourteen (14) days of the end of the month in which it was deducted. Likewise, the amendment to VAT rules (2016) requires entities to complete VAT returns and make VAT payment, where applicable, on a monthly basis within twenty-five (25) days after the end of the month.

A review of payable records for the 2019/2020 financial year, disclosed outstanding tax payables amounting to K864,899,813.66 deducted from various service providers, was not remitted to Malawi Revenue Authority as at the time of audit.

(c) Contracts Documents Not Presented for Audit Inspection: K28,586,479.80

Treasury Instruction (2004) No. 11.6.1 stipulates that the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents. In addition, Section 51 (1) of the Public Procurement and Disposal of

Assets Act (2017) requires that a procuring and disposing entity shall be responsible for the administration of procurement contracts into which they enter, and to that end, they shall establish procedures for contract administration and provide the necessary material and human resources for their implementation.

Contrary to the above quoted regulations, the Procurement Section failed to provide the audit team with some contracts documents for Borehole projects.

(d) IPDC Minutes Not Presented for Audit Review: K48,245,294.94

Treasury Instructions (2004) 11.6.1 states that in terms of the Public Audit Act, 2003, the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

A review of works procurement records amounting to K48,245,294.94 for the period between July 2019 and June 2020 revealed that Internal Procurement and Disposal Committee (IPDC) minutes relating to the construction of Mgomwa Under five clinic, Chidalala Under five clinic, Ulongwe Police Unit, Nkolora Under five clinic, Chiendausiku secondary classroom block, Kachenga police unit and maintenance of Balaka Stadium were not presented for audit review.

(e) Failure to Present Formal Contract Agreements for Audit Inspection: K67,013,905.34

Treasury Instructions (2204), Section 11.6.1 stipulates that the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

Contrary to the above instruction, the council failed to present to the audit team formal contract agreements on construction of various projects. During the period between July 2019 and June 2020 funds amounting to K67,013,905.34 were paid with regard to the contracts in question.

(f) Substandard Work: K20,061,083.00

During the projects verification exercise, the audit team noted poor workmanship in Balaka Central East constituency and Balaka North Constituency, where there was construction of a Market shelter and school respectively. As at the time of the visit, it was observed that the school block in Balaka North Constituency had developed cracks on the floor and windows. It was further noted that the market shelter in Balaka Central East constituency had developed cracks on the floor and was not occupied since it was completed. However, the physical

appearance of the structure looked like it was built several years back. During the period under review cash amounting to K20,061,083.00 was paid to contractors for the construction of the structures.

(g) Untraceable CDF Projects: K7,445,625.00

An inspection of payment vouchers for the 2019/2020 fiscal year revealed that the Council spent a sum of K7,445,625.00 to Ananjobvu Construction Limited for construction of Chikoko solar water project in Balaka North Constituency but the project could not be physically traced as during the projects verification exercise, the Council staff failed to show the audit team where the solar water project was constructed.

Further audit examination revealed that there were no relevant documents such as procurement and contract files for the project.

(h) Works Fully Paid for but Not Completed: K3,230,999.66

Treasury Instructions (2004), Section 5.19.1 provides that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that those services were rendered.

An inspection of CDF projects' expenditure for the 2019/2020 financial year disclosed that the Council made full payments amounting to K3,165,862.62 for drilling of a Borehole in Majo Village which was not completed. The Council made full payments based on certificates which did not reflect the status of the project on the site.

(i) Contracts not Presented for Audit Inspection: K21,080,156.58

Treasury Instructions (2004), Section 11.6.1 and CDF Guidelines Revised June (2014), Paragraph 19 stipulates that the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents. In addition, Section 51 (1) of the Public Procurement and Disposal of Assets Act (2017) requires that a procuring and disposing entity shall be responsible for the administration of procurement contracts into which they enter, and to that end, they shall establish procedures for contract administration and provide the necessary material and human resources for their implementation.

Contrary to the above instructions, the Procurement Section failed to provide the audit team with contracts for the following projects:

- Construction of Hanjahanja and Maiton Bridges
- Construction of Ndakhuta Concrete Box Culvert

BLANTYRE CITY COUNCIL

29. An audit of Blantyre City Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Non-Remittance of Pay As You Earn: K755,453,068.73

Taxation Act (2006), Section 102 (2) requires that every employer shall pay to the Commissioner the amount of any income tax deducted within fourteen days of the end of the month in which it was deducted or should have been deducted.

Contrary to the above requirement, it was noted that the Council did not remit Pay As You Earn (PAYE) amounting to K755,453,068.73.

(b) Non-Remittance of Pension Contributions: K711,003,047.70

Pensions Act (2010), Section 61 (1) states that an employer is under obligation to make employer contributions in respect of a member, the employer shall pay the trustee, or as the trustee directs, the amount of the contributions no later than fourteen days after the end of the month in which the liability to make the contributions arose.

Contrary to the above requirement, it was noted that the Council did not remit pension contributions amounting to K711,003,047.70 to NICO Pensions Trust Fund.

(c) Lack of Title Deeds for Council's Assets: K1,730,448,500.00

Treasury Instructions (2004), Section 5.13.1(f) requires that all government assets should be safeguarded against loss or destruction, and unauthorized use and that the Controlling Officers adopt a set of Internal Controls to ensure that the aforementioned risks are minimized.

However, it was noted that the Council did not have title deeds for the Council's various land and buildings valued at K1,730,448,500.00.

BLANTYRE DISTRICT COUNCIL

30. An audit of Blantyre District Council for the year ended 30th June, 2020 was completed in 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Under-collection of Revenue: K287,570,000.00

The Local Authority Accounting and Financial Procedures Manual (2009), Chapter 1.3.4 (g) on roles of District Commissioners and Chief Executives stipulates that they include ensuring that the collection of public money is according to approved plans and the estimates.

Blantyre District Council had planned to collect K613,361,000.00 revenues in the 2019/2020 financial year. However, the analysis of revenue records revealed that the council collected K325,791,000.00 which represented a deficit of K287,570,000.00 from the budget.

(b) Delays In Debt Recovery: K117,392,323.00

Treasury Instruction No 5.7.2 (i) of 2004 stipulates that sound cash management includes pursuing the debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the government are collected and banked promptly.

In November 2018, the Council offered plots to 270 people in Mpemba area, valued at K507,256,955.00. As at the time of audit, 105 people out of the 270 had not yet finished paying for the plots, representing 39% default rate. The total amount in default came to K117,392,323.00.

(c) Incomplete Works: K13,648,534.20

Treasury Instructions (2004), Section 5.19.1 stipulates that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that services were rendered.

A physical verification of Katete School Block CDF project revealed that Chifu Construction Company had handed over the project to the Council yet the block was not fitted with doors. At the time of handing over the block the contractor had been paid K13,648,534.20 in full.

(d) Failure To Revalue Property, Plant And Equipment

Local Authority Accounting and Financial Management Regulatory Framework Procedure Manual (2009) Chapter 2.1.1 Fixed Assets and International Public Sector Accounting Standard (IPSAS) 17 Property, plant and equipment requires that an entity to revalue items of property, plant and equipment periodically to reflect their fair values in the Balance Sheet.

During the audit of the financial statements for the year ended 30th June, 2020, no single class of assets was revalued. As a result, the correctness of the values attributed to the assets as shown in the financial statements could not be ascertained.

(e) The majority of notes are presented without prior year figures

International Public Sector Accounting Standards (IPSAS) accrual stage 3 requires the presentation of the Financial Statements and notes to have prior year figures for the statements to be informative.

Contrary to the above the Council submitted the Financial statements for audit without any comparative figures. This made the fair presentation of the state of affairs of the Council to be defeated.

(f) Unreconciled bank balances: K60,358,414.20

Section (2004) 5.7.2 (J) of Treasury Instructions requires that bank reconciliation statement should be prepared so that errors in the bank statement or cash book are detected and also it is an accounting requirement that the results of such reconciliations are used in the preparation of the financial statement.

Contrary to this, it was noted that some amounts of balances were of cash and cash equivalents were not reconciled. This affects the fair presentation of the Financial Position of the Council.

(g) Overstatement of Opening Cash and Cash Equivalents: K131,700,000.00

A review of the Cash flow statement disclosed that closing cash and cash equivalents for 2019 statement of cash flow was K (109,200,000) and it was supposed to be the adjusting opening figure in the statement of cash flow but the figure used in the 2019/2020 financial year's statement of cash flow was K22,500,000 which was a figure for 2018 and not the 2019 one. Therefore, the opening cash and cash equivalent figure was overstated by K131,700,000.00.

(h) Material differences between the Financial Statement balances and the IFMIS balances: K7,520,619.34

An analysis of the Operational expenses item revealed differences in amount booked on the IFMIS against those financial statement balances by K7,520,619.34. Differences indicated unexplained and uncorrected errors which results in lack of accounting and audit trail and casts doubt on whether transactions are valid.

CHIKWAWA DISTRICT COUNCIL

31. An audit of Chikwawa District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Use of Single Source Method of Procurement without PPDA Authority: K29,487,077.41

Public Procurement and Disposal of Assets Act (2017), Section 37(9) states that Single-source method is permitted only in the following (a) where the estimated value of the procurement does not exceed the amount set in the regulations; (b) where only one supplier has the technical capability or capacity to fulfil the procurement requirement, or only one supplier has the exclusive right to manufacture the goods, carry out the works, or perform the services to be procured; (c) where there is an emergency need for the goods, works and services.

An inspection of payment vouchers, supporting documents and procurement records disclosed that the District Education Manager purchased goods and services amounting to K29,487,077.41 using single source method of procurement without fulfilling the requirements highlighted above in respect to instances where single source method of procurement is permitted. Additionally, PPDA authority was not sought to use single source method of procurement.

CHIRADZULU DISTRICT COUNCIL

32. An audit inspection of the financial and other information of Chiradzulu District Council for the period ending 30th June 2020 were completed on 25th June, 2021. The audit disclosed some weaknesses in financial and internal controls. These weaknesses are presented from paragraph (a) below.

(a) Maintenance of Old Boreholes Under Borehole Projects: K11,073,003.94

Government Circular Letter Ref. No. LG/3/1/12 dated 6th November, 2017 states that Government provided a fund to facilitate the construction and drilling of water supply structures in all 193 Constituencies, in particular boreholes. The fund has been designed to support implementation of new projects which have been prioritized in the District/urban Development Plans. The Circular clearly states that drilling and construction of water supply structures will be eligible for financing new projects and not maintenance of dysfunctional water supply facilities.

An inspection of payment vouchers and borehole project records disclosed that the Council made payments for maintenance of old boreholes amounting to K11,073,003.94 contrary to the above quoted requirement.

CHITIPA DISTRICT COUNCIL

33. An audit inspection of the financial and other information of Chitipa District Council for the period ending 30th June 2020 were completed on 25th June, 2021. The audit disclosed some weaknesses in financial and internal controls. These weaknesses are presented from paragraph (a) below.

(a) Accounts Payables Not Supported by Invoices: K25,500,982.73

Treasury Instructions No 11.6.1 (2004) states that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full

supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff.

A review of financial records and reports for the period between 1st July 2019 and 30th June 2020 revealed that accounts payables amounting to K25,500,982.73 were not supported by invoices. As a result, it was difficult to ascertain the basis of the payables balance shown in the statement of financial position. In addition, the audit could not establish the propriety of the financial transactions in question.

(b) Failure to bank Revenue: K30,429,806.00

Accountant General Desk Instruction (2007) 15.13.1 states that monies received each day, cash as well as cheques, shall as far as possible be deposited in the bank on the following working day.

An inspection of financial records for locally generated revenues for the period between 1st July 2019 and 30th June 2020 revealed that out of the K60,919,512.00 which had been collected, K30,429,806.00 was not banked. The audit could also not determine how the money was utilized and accounted for.

(c) CDF projects implemented without the PIC: K98,915,449.13

CDF Guidelines 2014, Section 8 states that for each project there shall be a project Implementation Committee (PIC) consisting of not less than 5 persons one of whom shall be a representative of the MP, and the other 4 appointed by the Area Development Committee (ADC) and the respective ward councilor(s). It further states that PIC shall maintain proper records for all projects under their charge. In addition, the Public Procurement and Disposal of Assets Act (2017), Section 26 (c) states that (1) there shall be established in all procuring and disposing entities Internal Procurement and Disposal Committees (IPDCs) and (2) stipulates that the functions of the Internal Procurement and Disposal Committees shall include- (b) approving the methods of procurement and disposal to be used in each case.

An inspection of Constituency Development Fund (CDF) financial and stores records for the period beginning 1st July 2019 to 30th June 2020 revealed that CDF projects amounting to K98,915,449.13 were implemented without the involvement of the PIC. Furthermore, the CDF project expenditure was incurred without involvement of the IPDC.

DEDZA DISTRICT COUNCIL

34. An audit inspection of the financial and other information of Dedza District Council for the period ending 30th June 2020 were completed on 25th June, 2021. The audit disclosed some weaknesses in financial and internal controls. These weaknesses are presented from paragraph (a) below.

(a) Under banking of Revenue: K12,356,016.50

Treasury Instructions (2004), Section 5.6.2 requires that Controlling Officers of MDAs shall manage revenue efficiently and effectively by implementing appropriate processes that provide for identification, collection, recording, safeguarding and reconciliation of information in respect of revenue. Section 5.7.2(e) further states that sound cash management includes collecting revenue when it is due and banking it promptly.

An examination of financial statements, revenue cash books, general receipt books, bank deposit slips and bank statements revealed the Council collected revenue from 1st July 2019 and 30th June 2020 amounting K122,867,674.72. However, the Council banked K110,511,658.20 only, leaving a balance of K12,356,016.50 not banked and accounted for contrary to the provisions quoted above.

(b) Misallocation of Expenditure: K12,603,300.67

Treasury Instruction 4.14(1) of 2004 requires that all expenditures should be charged to an appropriate vote and that expenditure should be classified strictly in accordance with estimates. The provisions further require that funds should be spent on the intended activities otherwise Treasury approval must be sought to transfer funds from one expenditure line to another as represented by codes in the IFMIS.

However, the inspection of payment vouchers revealed that funds amounting to K12,603,300.67 were misallocated and utilised on transactions which were not related to relevant sub-items in the budget. There was no evidence that Treasury authority was obtained to transfer funds between sub-items (virement).

(c) Some Payables Shown in the Financial Statements without Justification of Documentary Evidence: K32,324,382.00

Public Finance Management Act of 2003, Section 78(1) and (2) states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of its liabilities. A statutory body or a subsidiary shall keep the accounts and records

referred to in subsection (1) in such a way as to facilitate the preparation of financial statements as required by section 79 and enable them to be conveniently and properly audited.

An inspection of the financial statements revealed that payables amount of K204,013,130.00 included K32,324,382.00 worth of payables which had no justification in form of documentary evidence. The Council included the same payables in the previous financial year ended 30th June, 2019.

(d) Payment of Subsistence Allowances Not Supported with Activity Plans and Reports: K18,109,878.93

Treasury Instructions (2004), Section 5.9 (a) states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

An inspection of payment vouchers and loose minutes revealed that subsistence allowances amounting to K18,109,878.93 were paid without being supported with activity plans and reports. As a result, it was difficult for the inspecting auditors to ascertain the propriety of the expenditure.

(e) Payments Vouchers Without Adequate Supporting Documents: K56,644,524.00

Treasury Instructions (2004), Section 5.16.1 require every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

An inspection of payment vouchers for the period under review revealed that some payment vouchers totaling K56,644,524.00 were submitted for audit review without supporting documents such as quotations, invoices, receipts and loose minutes. In the absence of the supporting documents, it was difficult to ascertain whether the payments were a proper charge against public funds.

(f) Payment of Subsistence Allowance without “Authority to leave Duty Station Forms”: K26,748,212.00

Treasury Instructions (2004), Section 5.9 (a) states that Controlling Officers shall ensure proper accounting records are maintained to

support all financial and related transactions and further those full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

An inspection of payment vouchers revealed that subsistence allowances totaling K26,748,212.00 were paid without authority to leave duty station forms. It was therefore difficult for the audit team to ascertain the propriety of these allowances as there was no evidence to show that the trips in question were authentic and duly authorized by relevant authorities.

(g) Payment of Subsistence Allowances to Officers Working Within Duty Station: K13,070,400.00

Malawi Public Service Regulations (MPSR) Section 118(1) and other Government Circulars clearly stipulates that a civil servant who is authorized by his or her Responsible Officer to travel on duty within Malawi may be paid Subsistence Allowance for every night that he or she spends away from his or her duty station.

An inspection of payment vouchers, to leave duty station forms and receipts for hire of halls for conferences and workshops revealed that the Council paid subsistence allowances amounting to K13,070,400.00 to officers, who worked within their duty station (Dedza). There was no authority from either the Secretary to the Treasury, Department of Human Resource Management and Development (DHRMD) or Office of the President and Cabinet (OPC) to back up the expenditure as per Government requirements.

(h) Payments Made Using Single Source Method of Procurement and Without IPDC Approval: K23,549,771.18

Public Procurement and Disposal of Assets Act (2017), Section 37(1) states that public procurement shall be realized by means of open tender proceedings, subject to the exceptions provided by the Act and as may be prescribed in the regulations.

Section 37(8) further states that request for quotations method may be used for the procurement of goods, works and routine services when the estimated value of the procurement does not exceed the amount set by the regulations.

Section 26(2) among other things stipulates that the functions of the Internal Procurement and Disposal Committees (IPDC) shall include ascertaining the availability of funds to pay for each procurement; approving the methods of procurement and disposal to be used in each case; and approving the procurement and disposal plans for the procuring and disposing entity.

An inspection of payment vouchers and cost center statements revealed that the council, particularly the District Health Officer (DHO) procured goods and food stuffs worth K23,549,771.18 without sourcing at least three quotations and that no IPDC minutes were available approving these procurements. It was therefore difficult for the inspecting auditors to establish if these were a proper charge to public funds.

(i) Deceased Estate Receipts Not Entered In Paper Money Register: K25,779,142.49

Local Authority and Finance Management Procedure Manual (2009), Paragraph 15.3.1, stipulates that all money meant for deceased estates from the Administrator General, Accountant General and other organizations shall be entered in the Paper Money Register (PMR) maintained by the Administration Department.

Contrary to the requirement, it was observed that the council failed to follow the procedures of recording receipts amounting to K25,779,142.49 in the Paper Money Register.

(j) Deceased Estate Funds not recorded in the Third-Party Money Register: K13,837,167.51

Local Authority and Finance Management Procedures Manual (2009), Paragraph 15.3.2 states that receipted money shall be recorded in the Third-Party Money Register (TPMR). The receipted funds shall be given an identification number in the TPMR with reference to the original Paper Money Register (PMR).

An examination of payment vouchers, Paper Money Register, Third-Party Register and bank statements revealed that Deceased Estate funds amounting to K13,837,167.51 were not entered in the Third-Party Money Register.

(k) Deceased Estate Funds Not Accounted for: K22,325,228.98

Public Finance Management Act (2003), Section 10 1 (h) and (I) of the states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, all expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste; and all necessary precautions are taken to safeguard public resources.

An inspection of payment vouchers, cash book, paper money and third-party registers, bank reconciliation statements revealed that deceased estate funds amounting to K22,325,228.98 were not accounted for.

(l) Embezzlement of Deceased Estate Funds: K3,197,686.10

An inspection of paper and third-party money registers, bank statements, interviews and a verification exercise with some of the

beneficiaries revealed that deceased estate funds amounting to K3,697,686.55 were embezzled by Mr Patrick Wanda a Council employee, who made withdrawals without the knowledge of the beneficiaries. It was noted that funds for Martha Biliati, whose father was deceased were K1,494,923.85. Her bank account was opened at FDH. However, through the bank statement it was noted that withdraws amounting to K730,079.65 were made by Mr Patrick Wanda, leaving a balance of K764,844.20.

The verification exercise also revealed that deceased estate funds for Pemphero Njovu were K3,444,032.05. However, the amount deposited in her account after the opening of the account was K2,800,000.00. The mother of Pemphero only made three (3) withdrawals amounting to K400,000.00 but the bank statement balance as on 1st March,2021 was K576,425.60. This means that K2,467,606.45 was also embezzled.

DOWA DISTRICT COUNCIL

35. An audit inspection of the financial and other information of Dowa District Council for the period ending 30th June 2020 were completed on 25th June, 2021. The audit disclosed some weaknesses in financial and internal controls. These weaknesses are presented from paragraph (a) below.

(a) Failure to Appraise CDF Projects

CDF Guidelines Revised June (2014), Paragraph 6 states that the Council shall appraise all new projects submitted by the Member of Parliament (MP). This was to be done through the Director of Public Works and relevant sector staff to ensure that the projects adhere to acceptable government and sectorial standards.

A review of CDF documents and enquiry from management indicated that this was not done. Rather, the Council was just dependent on the information filled on the CDF claim form which was primarily supposed to be filled by a Development Committee.

(b) Failure To Revalue Property, Plant And Equipment: K338,069,546.00

Local Authority Accounting and Financial Management Regulatory Framework Procedure Manual (2009), Chapter 2.1.1 Fixed Assets and International Public Sector Accounting Standard (IPSAS) 17 Property, plant and equipment requires that an entity to revalue items of property, plant and equipment periodically to reflect their fair values in the Balance Sheet.

During the audit of the financial statements for the year ended 30th June, 2020, no single class of asset has been revalued. Such assets' amounted to K338,069,546.

(c) Failure To Remit PAYE Tax To Malawi Revenue Authority: K5,421,272.40

The Taxation Act (2000) Section 10(1) provides that every employer shall pay to the commissioner the amount of any income tax deducted under rule 3(1) within 14 days from the end of the month in which it was deducted. Furthermore, the Local Assembly Financial Procedures Manual Chapter 1.3.4(j) states that the roles of District Commissioner and Chief Executives shall include ensuring that any tax, duty, fee, levy or other charge imposed by the legislation for which the Local Authority is responsible is collected promptly and to the fullest extent.

A review of the payroll records, Payment Vouchers and other relevant documents revealed that the Council collected K5,421,272.40 on behalf of Direct Employees but there was no evidence of remittance to Malawi Revenue Authority. Below are details on Table 4.

Table 2. Failure to Remit PAYE to MRA- Dowa District Council

	<u>Description</u>	<u>Amount</u>	<u>Remark</u>
1	PAYE for Direct Staff Aug 2019	888,884.00	Cheque no 4601 was Printed but not paid to MRA
2	PAYE for Direct Staff September, 2019	874,967.65	Deducted but not remitted to MRA
3	PAYE for Direct Staff October, 2019	730,884.65	Deducted but not remitted to MRA
4	PAYE for Direct Staff December, 2019	730,884.15	Deducted but not remitted to MRA
5	PAYE for Direct Staff January, 2020	733,884.15	Deducted but not remitted to MRA
6	PAYE for Direct Staff February, 2020	730,884.15	Deducted but not remitted to MRA
7	PAYE for Direct Staff April, 2020	730,884.65	Deducted but not remitted to MRA
	Total	<u>5,421,272.40</u>	

(i) Payment Vouchers Without Adequate Supporting Documents: K78,064,463.46

Treasury Instructions (2004), Section 5.9 (a) states that proper accounting records should be maintained to support all financial and related transactions and further that full supporting documents should be retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff.

Contrary to the above requirement, payments amounting to K78,064,463.46 had no supporting documents as at the time of audit. In the absence of documents, it was, therefore, difficult for the inspecting auditors to ascertain whether the expenditure made was a correct charge to public funds.

(j) Payment Vouchers Not Produced For Audit: K32,445,260.95

Treasury Instructions (2004), Section 5.9 provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An inspection of payment vouchers for Dowa District Council revealed that payment vouchers amounting to K32,445,260.95 were not presented for inspection. It was difficult to verify the authenticity of the expenditure.

(k) CDF Project Not Implemented: K2,128,768.17

CDF Guidelines Revised June (2014), Paragraph 9 states that Member of Parliament shall have primary responsibility for ensuring that projects in the constituency are being implemented as planned, and the District Commissioner shall monitor project implementation and provide technical advice at regular intervals and shall do so within the normal Council projects monitoring programme.

An inspection of payment vouchers and other related documents for the year under review revealed that expenditure amounting to K6,386,304.50 was paid through cheque number 018395 for the purchase of construction materials for Malambo, Aimalandiwo and Kalipindire school blocks and each project was allocated K2,128,768.17.

A visit to the site by the audit team revealed that CDF projects were implemented at Malambo and Aimalandiwo but not implemented at Kalipindire Primary School.

(l) Failure To Revalue Property, Plant And Equipment

Local Authority Accounting and Financial Management Regulatory Framework Procedure Manual (2009) Chapter 2.1.1 Fixed Assets and International Public Sector Accounting Standard (IPSAS) 17 Property, plant and equipment requires that an entity to revalue items of property, plant and equipment periodically to reflect their fair values in the Balance Sheet.

During the audit of the financial statements for the year ended 30th June, 2020, no single class of assets was revalued. As a result, the correctness of the values attributed to the assets as shown in the financial statements could not be ascertained.

KARONGA DISTRICT COUNCIL

36. An audit inspection of the financial and other information of Karonga District Council for the period ending 30th June 2020 were completed on 25th June, 2021. The audit disclosed some weaknesses in financial and internal controls. These weaknesses are presented from paragraph (a) below.

(a) Cost of Non-Current Assets without Supporting Documentation/Records: K1,207,859,259.00

Treasury Instructions (2004), Instruction 5.9(a) states that each Controlling Officer must ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff.

An inspection of the financial records of Karonga District Council revealed that there were no underlying records or documents found to support or substantiate the amount of K1,207,859,259 stated in the financial statements for the year ended 30th June, 2020 under the cost of Non-Current Assets. Further examination of the general ledger account revealed that there were no entries in respect to non-current assets cost.

(b) Non-Current Assets Written off Without Authority: K674,193,356.00

Public Finance Management (2003) Section 90(d) states that a Controlling officer shall report promptly, in the prescribed form, to Secretary any value of lost, deficient, condemned, unserviceable or obsolete property.

An inspection of the financial statements and fixed asset records revealed that non-current assets valued at K674,793,356.00 were written-off without authority as per requirement.

(c) Failure to Recover Debts for Over Two Years: K224,239,019.00

The Local Authority Accounting and Financial Procedures Manual (2009), Section 2.1.5 (a) stipulates that all sums of money owing to the Local Authority (LA) from rates, trade activities and services rendered shall be recognized as debts of the Local Authority. Such debts shall be properly recorded in the books of accounts as debtors upon raising of an invoice or a bill, and (b) requires the timely collection of all such debt by the LA in accordance with the terms and conditions of the service rendered.

An inspection of the financial records revealed that despite the Council rendering services for housing, it failed to collect from the beneficiaries (tenants), amounts due for the services provided for shop rentals and city rates totaling K224,239,019.00 for over two years.

(d) Failure to Remit PAYE Tax to Malawi Revenue Authority: K92,600,000.00

The Taxation Act (2000), Section 102(2) rule 3, (1) states that every employer, whether he be registered under the Income Tax (P.A.Y.E.) (Information) Rules, or not, shall deduct income tax at the rates specified in tax tables prepared by the Commissioner from the emoluments of every person in his employment to whom these Rules apply. Subsection 10, (1) further states that every employer shall pay to the Commissioner the amount of any income tax deducted under rule 3 (1) within fourteen days of the end of the month in which it was deducted.

An inspection of the financial records revealed that the Council failed to remit Pay as You Earn (P.A.Y.E) tax amounting K92,000,000.00 to Malawi Revenue Authority despite the tax being deducted at source from the payees.

(e) Failure to Insure Non- Current Assets.

Local Authority Accounting and Financial Management Procedures Manual (2009), Chapter 1.3.3 states that it is the responsibility of the Director of Finance to make sure that all Local Authority assets are properly owned, valued and adequately insured.

The audit exercise revealed that the Council did not insure non-current assets to safeguard them against loss. Therefore, in the event that the assets are damaged, the Council may not be in a position to recover the assets in question.

(f) Failure to Depreciate Non- Current Assets: K74,713,226.00

Local Authorities Financial Management Procedures Manual (2009), Chapter 16.4.1, Local Authorities, in line with Generally Accepted Accounting Practice and the provisions of the Public Finance Management Act (2003) under Section 13, expects the entity to provide for depreciation of fixed assets in their books of accounts.

An inspection of the financial records of the Council revealed that the Council did not depreciate its assets and as a result there was no related depreciation expense in its Statement of Financial Performance by Nature.

KASUNGU DISTRICT COUNCIL

37. An audit inspection of the financial and other information of Kasungu District Council for the period ending 30th June, 2020 were completed on 25th June, 2021. The audit disclosed some weaknesses in financial and internal controls. These weaknesses are presented from paragraph (a) below.

(a) Failure to Revalue Council Assets: K448,056,327.00

Local Assembly Accounting and Financial Management Procedures Manual (2009), Section 2.1.1 states that; to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets.

A inspection of the fixed asset register disclosed that all Council assets currently with a net book value of K448,056,327 have never been revalued hence the value of assets shown in the financial statements do not give the true reflection of their values.

(b) Under-Collection of Revenue: K11,883,712.00

Section 10 of the Public Finance Management Act (PFM) 2003 states that the Responsibility of Controlling Officers include ensuring that the collection of public moneys is according to approved plans and the estimates.

A review of the general ledger disclosed that the Council under-collected revenue by K11,883,712.00 during the year under review.

(c) Failure to Submit School Grant Expenditure Reports: K18,722,150.00

Public Audit Act of 2003, Section 7 (1) states that for the purpose of fulfilling the functions of the Auditor General and duties lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept.

Contrary to this requirement, management failed to produce school grant expenditure report in respect to expenditure totaling K18,722,150.00 to the audit team for verification.

KASUNGU MUNICIPAL COUNCIL

38. An audit inspection of the financial and other information of Kasungu Municipal Council for the period ending 30th June 2020 were completed on 25th June, 2021. The audit disclosed some weaknesses in financial and

internal controls. These weaknesses are presented from paragraph (a) below.

(a) Non-Collection of Receivables: K91,368,755.70

Local Authority Accounting & Finance Management Procedure Manual 2.1.5 (b) and (c) state that all such debts shall be timely collected by Local Authority in accordance with the terms and conditions of the service rendered and if a rate payer fails to pay his or her rate charge within the due date; the Local Authority shall surcharge according to the Local Government Act 1998.

During the year under review, it was revealed that the Council failed to collect receivables (city rates) amounting to K91,368,755.70. No evidence of surcharging late payers was provided to the audit team for review.

(b) Failure to value Property, Plant and Equipment: K35,698,728.18

Local Authority (LA) Accounting & Finance Management Procedure Manual 2.1.1 states that to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years

Management did not revalue property plant and equipment amounting to K35,698,728.18 contrary to the requirement of the LA Authority Accounting & Finance Management Procedures Manual quoted above.

(c) Lack of Title Deeds for Council Property: K362,360,169.38

Treasury Instructions No.5.13.1 (f) (2004) requires that all Government Assets are properly safeguarded against loss or destruction and unauthorized use and that controlling officer(s) adopts a set of internal controls to ensure that the aforementioned risks are minimized.

Kasungu Municipal Council did not have title deeds for property like land and building amounting to K362,360,169.38. As a result, the audit team failed to determine how the Council safeguarded its property against encroachment, unauthorized use and loss.

(d) Non Provision of Supporting Schedules: K27,472,877.36

Public Audit Act section 7(1) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

Contrary to the above quoted instruction, the Council management failed to produce schedules and supporting documentation for cash balances, current receivables and payables totaling to K27,472,877.36 shown in the financial statements for the year ended 30th June 2020.

(e) Failure to Include Opening Balances When Coming Up with Depreciation Charge for the Year: K296,612,196.47

Local Government Accounting & Finance Management Manual section 2.1.1 states that Local Authorities shall depreciate their fixed assets using the straight-line method of depreciation.

IPSAS 17 states that depreciation is charged systematically over the asset's useful life. The depreciation method must reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.

During the year under review, management did not include opening balances when coming up with depreciation charge for the year amounting to K296,612,196.47, which was shown in the statement of financial position for the year ended 30th June, 2020. Consequently, the depreciation charge presented in the statement of financial position is understated.

LIKOMA DISTRICT COUNCIL

39. An audit inspection of the financial and other information for Likoma District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Ownership Documents For Property Not Produced: K125,380,000

Local Authority Accounting and Financial Management Procedures manual (2009), Section 1.3.3 (a) require councils to make sure that all Local Authority's assets are properly owned, valued and adequately insured;

It was observed that the Council did not produce evidence of ownership for most of the buildings that the Council claims to own amounting to K125,380,000.00

(b) Failure to Provide Schedule for Inventories: K36,192,082.00

Treasury Instructions (2004), Section 11.6.1 states that in terms of the Public Audit Act (2003), the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

It was observed that the Council failed to provide a schedule for inventories to support the disclosed figure of K36,192,082.00 in the Statement of Financial position.

(c) Payment Vouchers Without Supporting Documents: K10,623,342.48

Treasury Instructions (2004), Section 5.15.1 States that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible.

An inspection of payment vouchers revealed that the Council presented payment vouchers amounting to K10,623,342.48 without supporting documents. As a result, the propriety of the expenditure could not be ascertained.

(d) Matters in the Financial Statements

- Failure to provide schedule for inventories: K36,192,082.00
- Failure to prepare bank reconciliation

LILONGWE CITY COUNCIL

40. An audit inspection of the financial and other information of Lilongwe City Council for the years ended 30th June, 2019 and 2020 was completed on 2nd July, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Revenue not Accounted for: K145,580,400.00

Treasury Instructions (2004), Section 5.7.2 states that for purposes of these Instructions, sound cash management includes (e) collecting revenue when it is due and banking it promptly. In addition, Accountant General Desk Instruction 2007 Section 15.1.1 states that revenue control and accounting have three objectives: -(i) To ensure that all revenue due is promptly collected (ii) To ensure that revenue collected is promptly accounted for (iii) To ensure that adequate internal controls exist to prevent loss or misappropriation of revenue.

An inspection of IFMIS information/data revealed that revenue receipt books amounting to K145,580,400.00, (K142,615,000.00 and K3,065,400.00) for the years ended 30th June 2019 and 2020 respectively issued to some revenue collectors remained unreconciled in the system as having been returned to the accounts for accountability. The accountability could therefore, not be ascertained.

(b) Un-Liquidated Funds: K17,238,407.74

Accountant General's final Desk Instructions (2007), Section 7.1.1 (i) and (iv) on Control of Receipted Vouchers states that the cashier shall ensure that all claimants have signed against their names and amounts before cash is paid and any unclaimed money shall be brought on charge.

An inspection of payment vouchers for the period under review disclosed that cash payments amounting to K7,699,000 and K9,539,407.74 for the years ended 30th June, 2019 and 2020 respectively were made to officers without receipted vouchers to show who received the funds. It was, therefore, difficult for auditors to ascertain if the cash was indeed received by the bona-fide recipients.

(c) Payment Vouchers Without Adequate Supporting Documents: K16,395,880.95

Treasury Instructions (2004), Section 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instructions (2004), Section 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An inspection of payment vouchers disclosed that payment vouchers amounting K16,395,880 for 2018/2019 financial year did not have relevant adequate supporting documents. In the absence of the supporting documents, it was difficult to ascertain whether the payments were a proper charge against public funds.

LILONGWE DISTRICT COUNCIL

41. An audit inspection of the financial and other information for Lilongwe District Council for the year ended 30th June, 2020 was completed on 2nd July, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Misallocation of Expenditure K46,221,686.80

Section 25(1) of the Public Finance Management Act of 2003 states that the Secretary to the Treasury may, with the approval of the Minister at the request of a Controlling Officer, direct that an amount appropriated for a specified output to be delivered by a Ministry be transferred to another output to be delivered by that Ministry. In addition, Treasury Instructions (2004), Section 4.14.1 states that specific approval is required before any allocation can be vired or transferred between a programme/item within the same Vote. The section further states that if the Controlling Officer is satisfied that the

provision against a programme / item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An inspection of payment vouchers disclosed that some payments amounting to K46,221,686.80 were charged to wrong sub items which is contrary to the above requirement. There was also no evidence to show that virement of funds was sought from the Secretary to the Treasury. A summary is presented on the Table 3 below has a breakdown of where the misallocation occurred:

Table 3: Misallocation of Expenditure-Lilongwe District Council

<u>Sector</u>	<u>Amount (K)</u>
Headquarters	27,595,734.50
Education	10,357,776.00
DHO	8,268,176.30
Total	<u>46,221,686.80</u>

(b) Payment for Food and Rations Paid to Staff Instead of Supplier: K13,010,000.00

A circular letter from Accountant General with reference number T4400 dated 3rd April, 2012, stipulates that payments should be made by cheque and deposited in respective accounts of the recipients of public funds.

An inspection of payment vouchers in respect of food and ration revealed that payment vouchers amounting to K13,010,000.00 were paid to members of staff on behalf of suppliers.

(c) Procurements Done Without approval of IPDC: K67,048,104.44

Constituency Development Fund Guidelines (2004), Section 14 (1) states that as the Controlling Officer, the DC is required to put in place policies and procedures that ensure that procurement under CDF complies with the Public Procurement Act (2003). Where the DC has delegated some roles to other stakeholders, these policies and procedures shall encompass such stakeholders. As a minimum, the policies and procedures shall cover the following: That procurement shall be done through an Internal Procurement Committee.

Contrary to the guideline above, an inspection of payment vouchers and internal procurement and disposal Committee minutes revealed that some payments in relation to CDF funds amounting to K67,048,104.44 were processed without the involvement of the Internal Procurement and Disposal Committee.

(d) Payment Vouchers Without Adequate Supporting Documents: K54,118,674.84

Constituency Development Funds Guidelines (2004), Section 17 (3) states that adequate documentation must be obtained in support of all expenditure. A payment voucher shall be raised under the normal local authority accounting procedures with the approved internal requisition and other documents such as quotations and evaluation forms as supporting documents.

An inspection of payment vouchers and related supporting documents revealed that payment vouchers amounting to K54,118,674.84 were presented for audit inspection without adequate supporting documents, such as delivery notes, invoices among others.

(e) Payments for Labour Contracts Without Completion Certificates: K10,089,957.60

Constituency Development Funds Guidelines (2004), Section 16 (4) states that a final payment shall only be paid after issue of a certificate of completion. The Contract shall determine who will sign the certificate of completion, depending on the complexity of the project.

Contrary to the Guideline above, final payments for Constituency Development Fund projects amounting to K10,089,957.60 were made before signing and issuing completion certificates.

(f) Projects Implemented not in the District Development Plan: K27,451,627.60

District Development Fund revised guidelines (2020), Section 3 states that the projects should be extracted from the District Development Plans (DDP's) especially the Annual Investment Plans (AIP's) formulated in accordance with the District Development Planning System Handbook.

Contrary to this requirement, an inspection of payment vouchers and the District Development plan revealed that the Council undertook projects worth K27,451,627.60 which were not in the District Development Plan.

(g) Over Expenditure on Borehole Projects: K25,277,455.00

Treasury Instructions (2004), Section 5.13.1 (h) states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognized as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, the following control objectives are met, there is no waste or extravagance.

An analysis of payment vouchers and contract documents for payments of borehole projects revealed an over-expenditure of

K25,277,455.00. The actual amounts paid were more than the amounts tendered.

(h) Differences Between the Ledger and Bank Account Balance: K19,647,342.67

Local Authorities Accounting and Financial procedures manual (2009), Section 15.3.5 states that at the end of every month, a Receipts and Payments statement shall be prepared in respect of the Deceased Estate funds account. The statement shall summarize Deceased Estate funds receipts and payments for the month.

An analysis of minors' account ledger balances and bank account balances revealed that the minors' bank account balances and ledger balances did not have the same balances. This was so because the Council failed to prepare a summary of receipts and payments. The bank had lesser or nil balances whilst the ledgers showed that the funds were still available.

LUCHENZA MUNICIPAL COUNCIL

42. An audit inspection of the financial and other information for Luchenza Municipal Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Revaluation of Assets Not Performed: K15,708,859,000

Section 2.1.1 of the LA Accounting and Financial Management Procedures Manual (2009) states that to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years. The revaluation exercise shall be undertaken by qualified valuers.

The audit revealed that the Council did not revalue their assets as provided for in the procedure manual set out above.

(b) Under-Collection of Revenue: K32,649,092.82.

Treasury Instruction (2004) number 5.7.1 states that Controlling Officers of MDAs, councils or any government agency shall manage revenue efficiently and effectively by implementing appropriate processes that provide for identification, collection, recording, safeguarding and reconciliation of information in respect of revenue and Section 44 (1) of the Local Government Act 1998 empowers Local Authorities to collect locally generated revenues in order to discharge their statutory mandate. Locally generated revenues are

revenues that are generated by the Local Authorities from their own sources other than from Central Government and Development Partners.

Furthermore, Luchenza Municipality's mission is to provide well regulated planning, socio-economic Services and infrastructure to the community in an efficient, effective and participatory manner, to improve the quality of infrastructure within the Municipality, to improve sanitation within the Municipality and to enhance revenue mobilization through property rates, fees and license.

It was, however, noted that in the years ended 30th June 2019 and 2020, the Municipality under-collected revenue by K32,649,092.82 if compared with the projected figures and this highly affected the activities of the Council, which led to failure of the municipality to achieve its mission.

(c) Failure to Collect the Outstanding Debts on Rates: K8,000,000.32

Local Authority Accounting and Financial Management Procedures Manual (2009) 2.1.5 (Debtors) provides that all such debts shall be timely collected by the Council in accordance with the terms and conditions of the service rendered. If a rate payer fails to pay his or her rate charge within the due date; the Council shall surcharge according to the Local Government Act 1998. Debts proven to be un-collectible for various reasons should be recommended to the Finance Committee for write off as bad debts.

An inspection of debtors/receivables records revealed that receivables amounting to K8,000,000.32 for National Food Reserve Agency, located at Luchenza Town Centre, plot code LUNCH/VE/103 remains outstanding since 2017.

(d) Lack of Internal Audit Function and Audit Committee

Local Authority & Financial Management Procedures Manual (2009), Section 25.3.1 provides for the establishment of an internal audit unit in Local Authorities for the review of accounting and internal control system as a service to management.

Assessment of the internal controls revealed that the Council did not have Internal Audit function or and the Audit Committee in place. In addition to that they do not have risk assessment process in place.

M'MBELWA DISTRICT COUNCIL

43. An audit of M'mbelwa District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Cash Payment to Staff: K54,344,448.00

Circular number ST/87 dated 10th December, 2010 requires that following the numerous challenges that the Government has had to contact with in making cash payments to its employees, an approval has been granted from the Office of the President and Cabinet to stop making payments in cash to civil servants with effect from 1st February, 2011. This relates to any payments, be it salaries, all types of allowances, leave grants, refunds etc.

An inspection of payment vouchers revealed that “for staff” cash payments to staff amounting to K54,344,448.00 without approval.

(b) Payment Vouchers without supporting documents: K19,498,616.47

Treasury Instructions (2004), Section 5.9(a) requires that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit Office.

An inspection of payment vouchers for the period under review revealed that payment vouchers amounting to K19,498,616.47 were presented for audit inspection without adequate supporting documents such as quotations, invoices and receipts. In the absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge against public funds. Details are shown on Table 4 below has details where the anomaly occurred: -

**Table 4: Payment Vouchers without supporting documents
M’mbelwa District Council**

<u>Sector</u>	<u>Amount (K)</u>
Secretariat	2,714,410.00
DHO-North	1,127,218.75
CDF	5,419,682.72
DDF	10,237,305.00
Total	<u>19,498,616.47</u>

(c) CDF Projects Carried Out Without Project Application Form: K21,698,977.60

CDF Guidelines Revised June (2014), Paragraph 5 members of Parliament and Area Development Committee shall make themselves familiar of the key priorities for the district. Further to that, the

representatives from the community shall complete an application form requesting a project and among other things, the form shall indicate a number of people to benefit with the implementation of the project.

An inspection of payment vouchers for CDF projects revealed that project expenditures amounting to K21,698,977.60 were made without project application forms. As a result, it was difficult for the auditors to ascertain whether the projects undertaken originated from the community for their benefit.

(d) Loss of Opportunity in Taking Charge of Council Assets

Treasury Instructions (2004), Section 5.13.1 (f) states that ‘all assets must be safeguarded against loss or destruction, and unauthorized use; further to that Local Authority and Financial Management Procedures Manual (2009), Section 16.7 states that Local Authorities shall maintain a Fixed Asset Register that will record details of all fixed assets owned by the Local Authority. The Fixed Asset register shall provide particulars of the different fixed assets of the Local Authority across all sectors.

Contrary to the regulation, the Council failed to recognize and take charge of structures previously used by the DHO South to the extent that the premises are commercially being used by third parties.

(e) Under-banked Revenue: K12,640,172.00

The Local Authority Accounting and Financial Management Procedures Manual (2009), Section 2.1.2 (c) requires that all monies collected from any source should be deposited intact into the Local Authority’s bank account.

An inspection of general receipts and deposit slips revealed that the Council collected revenue amounting to K27,920,100.00 out of which K115,279,928.000 was deposited with the bank leaving a balance of K12,640,172.00. However, management failed to provide evidence to the audit team relating to how the balance in question was accounted for.

(f) Inclusion of Depreciation in the Cash Flow Statement

On the cash flow statement, while using the direct method of calculating cash flow from operating activities, the Council included depreciation, a non-cash expense contrary to International Public Sector Accounting Standards No. 17.

MACHINGA DISTRICT COUNCIL

44. An audit of Machinga District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Under-banking of Revenue: K3,588,391.00

Desk Instructions (Finance) (2007), Section 15.13.1 stipulates that monies received each day, cash as well as cheques, shall as far as possible be deposited in the bank on the following working day. This implies that all revenue collected by Machinga District Council should be deposited into the Council's account before being used.

An inspection of General Receipts (GR), cash book, deposit slips and bank statement for the period under review revealed an under-banking of revenue amounting to K3,588,391.00.

(b) Missing General Receipt Books

Desk Instruction (Finance) (2007), Number 15.3(v) says that receipt books shall be kept in safe custody and their receipt and issue controlled through a separate serially numbered Register of Receipt Books. Loss of receipt books shall be reported immediately as per Treasury Instructions.

Contrary to the above mentioned regulation, an audit inspection of revenue records such as General Receipt Books and Receipt Book Registers disclosed that during the financial year ending 30th June, 2020 some Receipt Books were issued out to officers for revenue collection but could not be traced for audit inspection.

(c) Funds not Entered in the Paper Money Register: K31,153,939.35

Local Government Accounting and Financial Management Procedures Manual (2009), Section 15.3.1 (Receipting Procedures) states that all money meant for deceased estates from the Administrator General, Accountant General and other organizations should be entered in the Paper Money Register (PMR) maintained by the Administration Department. The register and cheques shall be tendered to the Treasury cashier. The Treasury cashier shall issue a general receipt whose details shall be entered in the PMR. The Administration Department shall retain the PMR and send the general receipts back to the source of the funds.

Contrary to the requirement, Machinga District Council failed to record funds amounting to K31,153,939.35 in the PMR.

(d) Invoices not Produced for Inspection: K16,943,993.42

Treasury Instructions (2004), Section 5.15.1 States that controlling officers shall ensure that proper accounting records are maintained to

support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible.

An inspection of records revealed that the Council failed to produce invoices for receivables it claimed to have. As a result, receivables amounting to K16,943,993.43 could not be verified to source documents.

(e) Non-Current Assets Without Title Deeds and Registration Certificates: K1,267,206,660.04

Local Authority Accounting and Financial Management Procedures manual (2009), Section 1.3.3 (a) require councils to make sure that all Local Authority's assets are properly owned, valued and adequately insured.

A review of records disclosed that the Council failed to produce evidence of ownership for most of its assets amounting to K1,267,206,660.04. Therefore, ownership of the said assets could not be ascertained.

(f) Payment Vouchers Without Adequate Supporting Documents: K258,783,586.14

Treasury Instructions (2004), Section 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instructions 2004, Section 5.9 (a) states that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions.

An inspection of payment vouchers during the period under review revealed that payment vouchers amounting to K258,783,586.14 were presented for audit without adequate supporting documents. This made it difficult for auditors to ascertain details and the accountability of the expenditure in question.

MANGOCHI DISTRICT COUNCIL

45. An audit of the Mangochi District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

(a) Over-Expenditure: K75,703,192.12

Treasury Instructions (2004), Section 2.6.1 (f) states that it is the responsibility of the Controlling officer to ensure that there is no over-

expenditure or over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or over-commitment.

An inspection of approved budget and expenditure reports for the period under review disclosed that some sectors at the Council over spent by K75,703,192.12 as compared to their provisions. Table below has the details.

Table 5: Over-Expenditure-Mangochi District Council

Sector	Approved Estimates	Revised Estimates	Over Expenditure	Expenditure
Agriculture	72,719,914	72,719,914	73,736,449.97	1,016,535.97
Education	477,567,268	477,567,268	492,365,588	14,798,320.00
Secretariat	152,006,373	152,006,373	198,724,189.55	46,717,816.90
Health	461,688,427	461,688,427	474,858,947	13,170,519.24
Total				<u>75,703,192.12</u>

(b) Misallocation of Funds: K37,733,959.10

Specific approval is required before any allocations can be vired or transferred between outputs. The PFM Act authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/ item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. If the Controlling Officer is satisfied that the provision against a Programme/item will be inadequate, he may submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote.

Contrary to the regulation, an inspection of payment vouchers for year ended 30th June 2020 revealed that payments amounting to K37,733,959.10 were charged to sub items not related to the budget lines and there was no documentation to indicate that virement warrant was granted by the Secretary to the Treasury to vire funds from the sub items charged.

(c) Monthly Receipts and Payment Statements for Deceased Estate Not Prepared: K21,226,539.60

Local Authority Accounting and Financial Management Procedures Manual (2009), Section 15.3.5 requires that at the end of every month, a receipts and payments statement shall be prepared in respect of the deceased estate funds account. The statement shall summarize deceased estate funds receipts and payments for the month.

However, an inspection of deceased estate records for Mangochi District Council revealed that the Council did not prepare monthly statements for receipts and payments for deceased estate funds amounting to K21,226,539.60 as required by the regulation above. As a result, accountability of the funds in question could not be ascertained.

MCHINJI DISTRICT COUNCIL

46. An audit of the Mchinji District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Documents not Produced for Audit Inspection:

Treasury Instructions (2004), Section 11.6.1 004 stipulates that in terms of the Public Audit Act, 2003, the Auditor General and his officers shall at all times be entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers shall give them every facility for inspecting such documents.

An inspection of financial records for the period under review revealed that the Council did not submit several accounting documentations such as payment vouchers, annual plans, control ledgers and stores ledgers just to mention a few. As for payment vouchers these were for Social Cash Transfer- K7,145,059.20, ORT and others -K127,932,431.92 and Receipted Vouchers amounting to MK45,083,320.00.

Consequently, it was difficult for the auditors to ascertain the propriety of the expenditure in respect to procurement of goods and services, salaries, third party funds, advances, among other things.

(b) Cash And Bank- Discrepancies in Amounts Between Financial Statements And Bank Statements- K104,899,842.05

Public Finance Management Act (2003), Section 10(1) (c) states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry-all accounts and records relating to the functions and operations of the Ministry are properly maintained.

An inspection of the financial and bank statements revealed that there were differences in the amounts between the bank balances as shown in the financial statements and the closing balances in the bank statements. The amounts per financial statements was K46,116,317.00 whilst amount on the bank statement was K123,370,016.52 hence understated of K104,899,842.05.

(c) Payments in the Bank Statement but not in the Cash book/Cheque Dispatch Register: K10,709,380.82

Local Authorities Accounting and Financial Management Manual (2009), Section 5.4.1 states that the principal record in respect of cash kept at the council is the cashbook which records both cash and bank transactions. All receipt and payment transactions must pass through the cashbook. It must be kept up to date and balanced on a daily basis. All transactions that have been receipted should be captured in the system daily.

An inspection of a sample of transactions on the bank statement for Other Recurrent Transactions (ORT) main account, the cheque dispatch register and the cash books that were presented for audit revealed that payments amounting to K10,709,380.82 were not captured in the primary records. The audit team failed to classify all the payments according to the sectors as the bank statement couldn't provide such information. As such, the expenditures in question could not be ascertained whether they were a proper charge to public funds.

(d) Unexplained Expenditure on ORT NBS Main Account: K11,729,393.57

Treasury Instructions (2004), Section 5.15.1 States that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible.

An inspection of District Development and Borehole Funds among others maintained NBS Main ORT account revealed that the expected closing balances and the actual balances shown on the bank statement were different. The expected balance was supposed to be K134,169,105.90 not K122,439,712.33. In the absence of the bank reconciliations, it was difficult to establish the reason why there were such differences. This means that there is an unexplained expenditure of K11,729,393.57

(e) Cash book Containing Payments from July, 2020 Without Disclosure Notes in the Financial Statements: K60,443,190.00

IPSAS 1 Paragraph 29 requires an entity to present information including accounting policies, in a manner that meets a number of qualitative characteristics. Appendix B of IPSAS 1 requires that information presented in the financial statements should be reliable, that is free from material error and bias and can be depended on by users to represent faithfully that which it purports to represent or could be reasonably be expected to represent.

An inspection of a sample of transactions on the bank statements for the ORT account with the cash book revealed that there were transactions for the financial year ending 30th June 2021. The financial statements did not disclose why such transactions were included amounting to K60,443,190.00. Due to the materiality of this amount, the financial statements figures presented could not be relied upon.

(f) Cash And Cash Equivalents- Missing Information: K46,116,317.00

Public Finance Management Act (2003), Section 10(1) (c) states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry-all accounts and records relating to the functions and operations of the Ministry are properly maintained.

Through enquiries and inspection of the documents that were provided for audit inspection, the Council only provided 1 bank statement for NBS ORT out of the 8 Bank Accounts that were reflected in the financial statements. The audit team therefore failed to trace receipts and payments transactions to the cash books and bank statements for the bank accounts which were not provided for inspection. Such missing information was for cash and cash equivalents- missing information: K46,116,317.00.

(g) Non-maintenance of Fixed Asset Register: K644,418,719.16

Local Authority Accounting and Financial Management Procedures Manual (2009), Section 2.1.1 defines fixed assets as those capital items owned by the council which have a useful life of more than one year. Fixed assets may be acquired through procurement or donations. The council shall prepare and maintain a fixed assets register which records all the fixed assets owned by the council and all these fixed assets should be reflected in the statement of financial position.

Through inquiries, it was observed that the Council did not maintain a fixed asset register as such asset management and support for balances in the financial statements was inadequate. It was further noted that the Council was not conducting physical verification of its assets periodically. This may lead to misappropriation of assets.

(h) Absence of Beneficiaries' Signatures On the Receipted Vouchers For Social Cash Transfer: K55,694,600.00

Local Authority Accounting and Financial Management Procedures Manual (2009), Section 8.3.3 states that payment vouchers shall be payable only to the person to whom payment is due except where cash is to be withdrawn to pay a number of persons in which case the voucher shall be payable to the officer drawing the cash. Where cash is withdrawn to pay a number of persons, names of beneficiaries and

the amount paid to each officer shall be shown and signed for by the recipient.

An inspection of payment vouchers along with their receipted vouchers revealed that cash payments to Mtukula Pakhomo amounting to K55,694,600.00 were not signed for by beneficiaries. The audit team failed to ascertain if the beneficiaries had received the cash transfers in question.

(i) Payments From Social Cash Transfer Operating Account without Authorisation: K78,368,800.00

Mtukula Pakhomo Guidelines (2013), Part V (D) requires that for payments to be disbursed, there should be a disbursement authorization notification email to use the funds from the operation account.

An inspection of payment vouchers revealed that the Council disbursed funds amounting to K78,368,800.00 various beneficiaries without complying to the above regulation.

(j) Different Records Maintained for Deceased Account of Tadala Kamakoko: K5,500,197.63

Local Authority Accounting and Financial Management Procedures Manual (2009), Section 15:3:3 states that a cheque shall be drawn in the name of the beneficiary. The Local Authority shall pre-arrange with the banks on permissible Deceased Estate identity letters that shall be used by beneficiaries with no identity cards of their own. The payments from the Deceased Estate Fund Account shall be recorded in the cash book.

An inspection of the Paper Money Register and other supporting documents revealed that an account of a beneficiary by the name Tadala Kamakoko showed an account balance of K5,500,197.63 while the bank balance was nil and the account was closed. Therefore, there was a difference of the amount in question.

(k) Dormant Deceased Accounts: K5,658,573.73

Local Authority Accounting and Financial Management Procedures Manual (2009), Section 15.3.2 states that where the Deceased Estate funds are disbursed to minors, bank accounts shall specifically be opened for the minors with commercial banks registered with the RBM. The minor's bank account number shall be endorsed in the TPMR.

An inspection of Deceased Estate funds records revealed that some accounts for minors amounting to K5,658,573.73 were dormant. No transactions were effected since opening of the accounts. Upon

inquiry, it was heard that due to lack of resources the Council could not manage to make follow ups on the minors involved.

(l) Zonal Improvement Grants Not Accounted for: K1,677,000.00

Treasury Instructions (2004), Section 5.13.1 states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognized as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, among others, the following control objective are met.

An inspection of payment vouchers and other supporting documents for zonal improvement grants to Kamwendo and Waliranji zones revealed that funds amounting to K1,677,000.00 were not accounted for as documentation to support their disposal could not be provided.

(m) Payment vouchers on payments to Borehole Contractor not produced: K21,925,992.00

CDF Guidelines Revised June (2014), Paragraph 14 states that the District Commissioner is required to put in place policies and procedures that ensure that procurement under CDF complies with the provisions of the Public Procurement and Disposal of Assets Act (2017), Section 2 which states that the bidders should be qualified in terms of requisite registrations and capacity to deliver the required goods and services.

An inspection of contract files revealed that the Council contracted Royale Hill Construction Company to drill 20 borehole amounting to K61,989,650.00 in a period of two (2) months. It was noted that the time frame of the contract was not adhered to as it took an extra seven (7) months without completing the works and furthermore, the extension was not supported by any documentation. Cash book transactions showed that as at the date of audit, the Council had already paid K21,925,992.10 to the contractor but payment vouchers for to support this expenditure were not produced for verification and this made it difficult to establish the basis the Council used in paying the contractor. All these brought the auditors to a conclusion that the contract was not properly administered by the Council and that the contractor lacked capacity.

(n) Failure to Issue General Receipts: K29,841,915.64

Local Authority Accounting and Financial Management Procedures Manual (2009) states that all revenues of the LAs shall be received or collected only by Cashiers or Collectors entrusted to collect money upon the issuance of an official cash receipt or ticket.

An inspection of revenue records revealed that revenue amounting to K29,841,915.64 was not acknowledged by issue of general receipts as

per requirement. As a result, its accountability could not be ascertained.

(o) Failure To Remit Taxes to Malawi Revenue Authority: K43,404,182.15

Taxation Act and VAT act (2005), Section 102A requires deduction of appropriate rates of taxes on payments made to suppliers or payroll. Section 10(1) (j) of the Public Finance Management Act of 2003 states that: Each Controlling Officer is responsible for ensuring that, in relation to his Ministry-(j) Any tax, duty, fee, levy or other charge imposed by legislation for which the Ministry is responsible is collected promptly and to the fullest extent.

An inspection of tax remittance records revealed that the Council failed to remit tax remittance Pay As You Earn (PAYE) amounting to K41,663,860.00 and Withholding tax amounting to K1,740,322.15

(y) Revenue from Sale of Council Land Not Accounted for: K28,428,170.00

Treasury Instructions (2004), Section 5.6.4 states that Revenue Collectors may collect and account for revenue and other public moneys falling within their control in accordance with instructions issued by the designated Receiver of Revenue.

An inspection of the final management letter for the year ended 30th June 2019 for the council revealed that through inspection of records on the disposal of plots of land for the Council at Mwami Boarder disclosed that sales proceeds amounting to K28,428,170.00 were not accounted for. In addition, there were no reports on how the plots were sold as at the date of the audit. It was further noted that deposit slips and bank statements were not given for inspection and even as at the date of audit for the year under review, no documentation was available for inspection to verify the accountability of the revenue.

MULANJE DISTRICT COUNCIL

47. An audit inspection of the financial and other information for Mulanje District Council for the year ended 30th June, 2020 was completed in 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Poor Workmanship On The Rehabilitation Of Restaurant And Bar At Mulanje Park Stadium: - K29,550,000.00

Public Finance Management Act 2003, Section 10 subsection I (h) and (I) states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, all expenditure is incurred with due regard

to economy, efficiency and effectiveness and the avoidance of waste; and all necessary precautions are taken to safeguard public resources.

An inspection of payment vouchers, procurement and other records revealed that Mulanje District Council entered into a contract with Uncle Joe investments to rehabilitate Mulanje Stadium Bar and restaurant at a contract price of K29,550,000.00, using funds from District Development Fund (DDF). The Contract was for a period of three (3) months from 17th February, 2020 to 17th May 2020.

A verification exercise conducted by the audit team on 23rd June, 2021 revealed that substandard works were carried out by the contractor on the Building. This was done despite the Council paying the contract sum in full.

(b) Payment Vouchers Without Supporting Documents: - K91,952,638.22

Treasury Instructions 5.9(a) of (2004) encourages the need for retaining and filing documents supporting all payment transactions in such a way that they are easily and readily accessible to stakeholders.

An inspection of payment vouchers for the Council disclosed that payments totaling to K91,952,638.22 were submitted for audit without relevant supporting documents. It was therefore, difficult for the audit team to ascertain if these payments were for the items narrated on the payment vouchers.

(c) Misallocation Of Expenditure: - K10,811,149.06

Treasury Instructions 2004, Section 4.14.1 states that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

An inspection of payment vouchers disclosed that funds amounting to K10,811,149.06 meant for other activities were used on unrelated activities without any approval from the Secretary to the Treasury.

(d) Failure To Update A Fixed Asset Register

Treasury instructions of 2004, Section 5.13 requires that adequate internal controls must exist within each Ministry and Department to ensure that all assets are recorded and safeguarded against loss, destruction and unauthorized use. Additionally, the Government Circular Ref. No.CS/S/001 dated 2nd March, 2010 from Chief Secretary to the Government-on-Government Physical Asset Register, requires the maintenance of an Asset Register which should among

other things indicate monetary values of the assets and their conditions.

An enquiry with management and inspection of asset register disclosed that the Council did not have an updated fixed assets register. This was done despite the fact that it has had some assets added in the year under review. It was therefore difficult for the Audit team to confirm the existence and condition of assets held by the Council.

(e) Abandoned Police Unit Construction At Nkando: K768,000.00

Public Finance Management Act 2003, Section 10 subsection I (h) and (I) states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, all expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste; and all necessary precautions are taken to safeguard public resources.

An inspection of payment vouchers, procurement and other records disclosed that Mulanje District Council entered into a contract with Justin Banda at a Contract price of K1,500,000.00 to construct a police unit at Nkando for a period of 90 days starting from 22/11/2019 to 21st March 2020. Under the contract, the Council was to purchase and supply all the items needed by the Contractor. The amount charged by the contractor was labour for constructing the police unit.

A verification exercise conducted by the audit team revealed that the contractor abandoned the project despite being paid K768,000.00 through cheque number 28364 and this payment was made on 4th February, 2020.

(f) Payments Made To Third Parties Instead Of Service Providers: - K20,030,316.40

Public Procurement and disposal of assets act of 2017, Section 14 states that in order to be eligible to be awarded a procurement contract; a bidder must be registered, depending upon the nature of the contract, with the registrar of companies. Government accounting procedure requires that payment for such goods and services should be paid by cheques to the registered name of the suppliers.

An inspection of payment vouchers for the Council disclosed that various goods and services provided and rendered in 2019/20 financial year amounting to K20, 030,316.40 were paid in the name officers instead of service providers.

(g) Poor Workmanship At Namatuni School Block -Mulanje South-West: K8,795,750.00

CDF Guidelines of 2014, Paragraph 16(5) state that the Director of Public Progress (DPW) shall inspect projects in each Constituency

quarterly and issue a report to the District Commissioner. The report shall detail status of the projects, quality of workmanship, capacity of Area Development Committee (ADC) and Project Management Committee (PMC) in implementing and monitoring projects.

An inspection of payment vouchers and procurement records for CDF showed that the Council entered into a contract with Payamava Civil works for the Construction of a School block at Namatuni Primary school in Mulanje South-West at a Contract sum of K8,795,750.00. It was further noted that K8,795,750 (4,000,000 and 4,795,750) was fully paid to the contractor on cheque numbers 27968 and 28154 respectively, these payments were made on 8th January 2020 and 23rd January 2020.

However, a visit to Namatuni Primary School by the audit team on the 24th of June 2021 disclosed that substandard work were performed on the school block as the classroom floor has developed potholes and also the potholes were patched but that was also done poorly, this is contrary to the requirements of CDF guidelines above.

(h) Delayed Completion Of Chonde Sports Complex Fence At Mulanje South –West

Public Finance Management Act 2003, Section 10 subsection I (h) and (I) states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, all expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste; and all necessary precautions are taken to safeguard public resources.

An inspection of payment vouchers, contract documents and procurement records disclosed that the Council entered into a contract with Phalombe construction, for the construction of Chonde sports complex fence. The contract sum was K36,107,906.25 and the Contract period was for 3 months starting from 26th February 2020 to 26th May 2020.

It was further noted that the Council had so far paid the contractor, K20,759,756.25. This represents 58% of the total contract price. However, a visit to the project site by the audit team on 24th June 2021 revealed that the project is running behind schedule as it is still under construction and at knee level.

MWANZA DISTRICT COUNCIL

48. An audit inspection of the financial and other information for Mwanza District Council for the years ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

(a) Council Operating Without a Strategic Plan

As a methodology and process to achieve improved service delivery, Mwanza district council developed a 5-year strategic plan subject to revision after a lapse of the period. The aim is to increase knowledge of its core functions as well as its corresponding responsibility, to improve the socio-economic wellbeing of the people through provision of quality education, safe water, health care, food security, improved communication facilities, good governance and justice while sustainably utilizing the environment. The formulation of the strategic plan encompasses a review of the; Outgoing strategic plan, the Constitution the Republic of Malawi, the Local Government Act (1998)

An inquiry into the system of operations during the review period disclosed that the council was operating without a strategic plan. It was revealed that the council was operating using the District social economic profile and annual investment plan only. Thus, making it difficult to confirm the authenticity of its operational, direction and scope.

(a) Financial Statement Balances Drawn From Outside IFMIS:- K2,464,167,524.92

Financial Management Information System (IFMIS) End User Training Manual (2016) Section 4.5 states that the General Ledger is a central depository where all transactions posted from the various modules update account balances. The General Ledger module interfaces with all sub ledgers and is used to maintain accounts balances to facilitate financial reporting and analysis.

An inspection of payments vouchers, payables, fixed asset register, operating account general receipts, cheque pads against transactions posted into IFMIS revealed that transactions with a total value of K2,464,167,524.92 used in formulation of the Statement of Financial Position and the statement of financial performance for the period under review were processed outside the IFMIS. Therefore, it was difficult to confirm propriety of the transactions in question and the integrity of the Financial Statements thereof.

(b) Payment Vouchers Not Presented For Audit: - K83,954,661.53

Public Audit Act of 2003, Section 7 (1) (b) states that for the purposes of fulfilling the functions and duties lawfully conferred Auditor General on the Auditor General, the Auditor General and every person authorized by him- (a) shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept.

An inspection of general receipts, bank deposits, extractions from the IFMIS, expenditure cash books, cheque counter folios and enquiries conducted during the audit disclosed that the Council did not present for audit inspection, payment vouchers amounting to K83,951,661.53 of which K74,696,536.53 relates to Other Recurrent Account while K9,255,128.00 relates to Operating Account activities transacted during the period under review.

(c) Payments Without Supporting Documents: - K20,470,533.40

Accountant General Desk Instructions of 2007, Paragraph 6.4 (vi) on General Instruction for preparing payment vouchers requires all supporting documents to be attached to the original copy of the voucher.

Contrary to the above provision, an inspection of payment vouchers disclosed that during the period under review, the council had payments worth K20,470,533.40 relating to Constituency Development Funds (CDF), Operations and Other Recurrent Transactions without supporting documents. This made it difficult for the audit team to ascertain authenticity of the payments.

(d) Paid Subsistence Allowances Not Supported With Activity Reports: - K13,068,280.00

Government Circular Reference Number CS/15/15/7 dated 18th December, 2015 from the Chief Secretary to the Government states that in line with travel policy, each officer who is paid subsistence allowance must submit a report to the Controlling Officer indicating among other aspects, where he/she travelled to, the purpose of the trip, the institutions/individual consulted and benefits of the trip, to the Ministry / Department.

Contrary to the above requirement, the audit team through an inspection of payment vouchers and authority to leave duty station forms observed that the Council paid subsistence allowances worth K13,068,280.00 in respect of various training activities undertaken during period but the auditors were not furnished with relevant activity reports to substantiate how the funds were spent.

(e) Misallocation Of Expenditure: - K10,602,980.00

Treasury Instructions of 2004, Section 4.14.1 states that specific approval is required before any allocations can be allocated or transferred between outputs.

An inspection of payment vouchers disclosed that funds amounting to K10,602,980.00 that were meant for other activities were used on unrelated activities defeating Government objectives on budget credibility and compliance.

(f) Failure To Revalue Non-Current Assets

Local Authority Accounting and Financial Management Procedure Manual of 2009, Paragraph 16.5 of the states that Councils shall ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years by a qualified valuer with the difference between the revalued amount and the previous net book value of the asset being transferred to the Revaluation Reserve Account.

A review of financial statements for the preceding year and years before against the financial statements for the year under review, disclosed that, the Council did not conduct an annual revaluation on its Property, Plant and Equipment Plant and Other Current Assets carried in its financial statements, making it difficult to ascertain if the assets values shown in the fixed asset register reflected the state of affairs as at 30th June, 2020.

(g) Failure To Review Useful Life Of Property, Plant And Equipment

Local Authority Accounting and Financial Management Procedure Manual Paragraph 2.1.1 requires that the useful life of fixed assets should be reviewed by qualified valuers after expiry of the depreciation periods as stipulated above. Subsequent depreciation calculations shall be based on the revised useful economic life.

A review of Financial statements for the preceding years together with financial statements for the year under review, disclosed that the Council did not conduct a review of the useful life of its Property, Plant and Equipment presented in the financial statements making it difficult for the inspecting auditors to ascertain the validity of the values in the financial statements.

MZUZU CITY COUNCIL

49. An audit of the Accounts of Mzuzu City Council for the years ended 30th June, 2020 was completed on 2nd July, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Lack Of Proper Asset Management

Treasury Instructions of 2004, Section 5.13.1(f) requires that all Government Assets are properly safeguarded against, fire, loss, theft and destruction and that controlling officer adopts a set of internal controls to ensure that the aforementioned risks are minimized.

An assessment of the control environment revealed that assets were not properly safeguarded. The Council did not maintain any asset register. Real property in form of buildings, shops and markets for the council are not under insurance and had no title deeds. It was also observed that all assets in form of office equipment were not tagged to show that they are owned by the Council.

(b) Wasteful Expenditure On Legal Charges: - K32,218,818.92

Treasury Instruction of 2004, Section 2.6.1 (h) requires that all expenditures should be incurred with regard to the economy, efficiency and effectiveness and avoidance of waste.

An inspection of Mzuzu City Council files and other related documents revealed that the Council had forty-seven (47) cases to settle in court and as at the time of the audit K32,218,818.92 had already been spent in form of legal fees. Some of the issues could have easily been avoided had it been that the Council had a strong legal Section to advise on legal matters.

(c) Weak Internal Audit Function

Local Authority Accounting and Financial Management Procedures Manual of 2009, Paragraph 2.1.15 states that Local Assemblies shall establish and maintain an Internal Audit Department, as a tool for management to enhance the internal control systems.

A review and inquiries of the Internal Audit Department disclosed that the department is weak due to the following factors:

- There are a lot of unfilled vacancies hence the Department is headed by an Assistant Internal Auditor instead of Chief Internal Auditor. Looking at the type, importance and size of the entity, it is a mismatch to have such an important and critical department as internal audit to be headed by an Assistant Internal Auditor.
- The audit function reports to the Director of Administration Services (DAS) instead of directly to CEO or Audit Committee as per good governance principles.
- Most activities on work plan were not carried out
- Recommendations from the available audit reports are rarely acted upon
- No or delayed access to information by the internal audit team

(d) Lack Of Safeguards Against Loss Of The Council Assets

Treasury Instructions of 2004, Section 5.13.1 (f) requires that all Government Assets are properly insured to safeguard against loss or destruction and unauthorized use and that controlling officer(s) adopts

a set of internal controls to ensure that the aforementioned risks are minimized.

However, contrary to the regulation above, it was discovered that District Education Manager (DEM) office block, Institutional houses, office furniture and computers were not properly safeguarded against loss and destruction through insuring them.

(e) Outstanding Accounts Payables (Creditors): - K1,880,979,174.63

The Public Finance Management Act of 2003, Section 10 (f) provides that each controlling officer is responsible for ensuring that there is no over-expenditure or over- commitment of funds in relation to his/her ministry.

It is amplified in the Treasury Instructions of 2004, Section 4. 13.2.2 which states that unless otherwise indicated in the notes in the approved estimates, every controlling officer shall ensure that expenditure is in accordance with approved budgetary provisions, and that there is no over-expenditure.

An inspection of statement of financial position for the year ended 30th June, 2020 revealed that Mzuzu City Council had accounts payables amounting to K1,880,979,174.63 which are not settled. This contravened the above quoted legal provisions. It should be noted that supporting schedules for the accounts payables were not provided for audit review despite being indicated in the financial statements.

(f) Outstanding Accounts Receivables (Debtors): - K1,424,531,821.37

Treasury Instructions of 2004, Section 10.1 and Accountant General Desk Instructions of 2007, require that when procuring Government goods and goods beyond the controllers' limits, should be specifically authorized by the Treasury.

An inspection of ledgers and management reports disclosed that Mzuzu City Council renders services on credits to a number of institutions, individuals and government offices inclusive. However, as at 30th June, 2020, the Council had outstanding debtors amounting to K1,424,531,821.37. At the time of the audit, no explanations were given as to why management failed to collect the money.

(g) Pension Deductions Not Remitted to Pension Fund:- K277,406,711.84

Public Finance Management Act of 2003, Section 10 (j) Local Authorities Accounting and Financial Management Procedures Manual, Section 1.3.4 (j) states that the roles of District Commissioners and Chief Executive Officers shall include ensuring that any tax, duty, fee, levy or other charge imposed by legislation for which the Local Authority is responsible is collected promptly and to the fullest extent.

An inspection of payment vouchers for the period between 30th July, 2019 and 30th June, 2020 for the Pension deductions undertaken by the Council revealed that Mzuzu City Council did not remit Pension deductions amounting to K277,406,711.84 to NICO Pension Fund, as evidenced by lack of NICO receipts, contrary to the above quoted requirement.

(h) Pay As You Earn (PAYE) Tax Not Remitted to MRA: - K206,691,618.40

Taxation Act of 2000, Section 10 (j) requires that every employer shall pay to the Commissioner the amount of any income tax deducted under rule 3 (1) within fourteen (14) days of the end of the month in which it was deducted.

An inspection of the financial statements for the Council has revealed that Pay As You Earn (PAYE) tax amounting to K206,691,618.40 was not remitted to MRA and this attracted a significant amount of penalties.

(i) Failure To Prepare Annual Procurement And Disposal Plans

Public Procurement and Disposal of Public Assets Act of 2017, Section 39 (1) states that procuring and disposing entities shall plan procurement and disposal activities with a view to achieving maximum value from both public expenditures and disposal proceedings including other objectives set forth in the Act.

An inspection of procurement records for the Council and its devolved sectors disclosed that the Council did not prepare an annual procurement and disposal plan for 2019/2020 fiscal year to guide its procurement activities. In the absence of the procurement plan value for money and the entity 's objectives could not be effectively achieved.

(j) Failure To Produce Security Document Register For Audit

Public Audit Act of 2003, Section 7.1(a) states that the Auditor General and every person authorized by him shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept; and Treasury Instruction of 2004, Section 5.9 (a) states that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff.

Contrary to the above requirements, management of the Council did not provide security document register and details of procured and

used general receipt books for audit. Therefore, it was difficult to ascertain usage and accountability of the receipt books.

(k) Payments Vouchers Without Supporting Documents: - K15,176,211.50

Treasury Instruction (2004), Section 5.9 states that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further those full supporting documents are retained and filed in such a way that they are easily and readily accessible. In addition, Local Authorities Accounting and Financial Management Procedures Manual of 2009, Section 5.5.2 stipulates that payment vouchers must be fully supported by relevant documents such as invoices, memos, and loose minutes among others.

Contrary to the above requirement, an inspection of payment vouchers amounting to K15,176,211.50 were presented to auditors without attaching relevant supporting documents. In the absence of such documents, it was difficult for audit team to ascertain whether the expenditure made was a correct charge to public funds.

(l) Operating An IPDC Without Qualified Procurement Officer

Public Procurement and Disposal of Public Assets Act of 2017 Section 27 (2b) states that membership of the Internal Procurement and Disposal Committee shall include the head of the Procurement and Disposal Units or his representative.

Contrary to the above, the Council's Internal Procurement and Disposal of Committee (IPDC) does not have a qualified procurement officer.

(m) Incomplete Non-Current Assets Register

Treasury Instructions (2004), Section 5.16.1 requires every Controlling Officer(s) to ensure that internal controls exist within the Department or Ministry to ensure that all assets are recorded and safeguarded against loss, destruction or unauthorised use.

In addition, the Government Circular Ref. N0.CS/S/001 dated 2nd March, 2010 from the Chief Secretary to the Government-on-Government Physical Assets Register, requires the maintenance of a non-current assets register which should among other things indicate the monetary values of the assets and their condition.

Contrary to this requirement, the Council and all its cost centres failed to maintain a consolidated non-current asset register in conformance with the format provided by the Secretary to the Treasury for all classes of non-current assets. Failure by the Council to maintain a proper consolidated non-current assets register will make it very difficult for the Government of Malawi to fully migrate to accrual

based IPSAS. Further, non-current assets may be mismanaged without being noticed and fraud may be perpetrated.

(n) Constituency Development Fund (CDF) Projects Without Project Implementation Committee (PIC) Involved: - K10,792,500.00

CDF Guidelines Revised June (2014), Paragraph 8 states that a Member of Parliament shall work with the relevant VDC/NC, Urban Development Committee to facilitate project implementation for each project and there shall be a Project Implementation Committee (PIC) consisting of not less than five (5) persons, one of whom shall be a representative of the MP, and the other four (4) appointed by the Area Development Committee (ADC) and the respective Ward Councilor(s).

An inspection of vouchers and contract files revealed that K10,792,500.00 was spent on CDF projects which did not have Project Implementation Committee (PIC).

(o) Under Utilisation Of The Constituency Development Fund (CDF): -K24,207,500.00

The CDF Guidelines Revised June (2014), Paragraph 10, roles and responsibilities require Members of Parliament to familiarize themselves with the key priorities of the district included in the district development plan. The guidelines further require that CDF projects should solve immediate short term social-economic problems identified by the citizens and the elected representatives.

An inspection of payment vouchers and cashbooks disclosed that the Council underspent the CDF funds by K24,207,500.00. They received funding of K35,000,000 but spent only K10,792,500.00 representing under utilization rate of 73.%.

(p) CDF Payment Vouchers Without Supporting Documents: - K10,792,500.00

Treasury Instructions (2004), Section 5.15.1 states that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further those full supporting documents are retained and filed in such a way that they are easily and readily accessible and can be produced immediately upon the request of Ministry of Finance and National Audit Office.

An inspection of payment vouchers revealed that some vouchers totaling K10,792,500.00 did not have supporting documents at the time of audit. As a result, it was not possible to establish the accountability of the payments.

(q) TEVETA Levy Collected but Not Remitted To TEVETA Fund: - K53,203,218.28

Local Authorities Accounting and Financial Procedures Manual of 2009, Section 1.3.4 (j) states that the roles of District commissioners and Chief Executive Officers shall include ensuring that any tax, duty, fee, levy, or other charge imposed by legislation for which the Local Authority is responsible is collected promptly and to the fullest extent.

An inspection of payment vouchers for the period between 30th July, 2019 and 30th June, 2020 for the payroll of the Council revealed that the Council collected the 2% levy amounting to K53,203,218.28 but did not remit it to TEVETA Fund, as evidenced by lack of TEVETA receipts, contrary to the above quoted requirement.

NENO DISTRICT COUNCIL

50. An audit of the accounts of Neno District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) No Asset Register For The Assets In Financial Statement: - K71,164, 000.00

Local Authority Accounting and Financial Management Procedure Manual, Section 16.7 states that Local Authorities shall maintain a fixed asset register that will record details of all fixed assets owned by the Local Authority. The Fixed Asset register shall provide particulars of the different fixed assets of the Local Authority across all sectors.

An inspection of the asset register of the Council and physical verification, revealed that property, plant and equipment register is not inclusive of all Council's property and the reported figures in the financial statement are carried forward figures amounting to K71,164,000.00. The asset figure in the financial statements is not a true reflection of the Council's property as it was carried forward from the previous year and was without proper supporting schedules. Hence, the audit team was unable to ascertain the propriety of the amounts involved.

(b) Collection Of Deceased Estate Funds On Behalf Of Beneficiaries: - K5,285,583.78

Treasury Instructions of 2004, Section 5.13.1 require that adequate internal controls should exist within each Ministry and Department. Furthermore, the instructions state that the controlling officers should ensure that they meet the control objectives.

An inspection of the receipted vouchers in respect of deceased estate funds revealed that K5,285,583.78 was signed for by other persons on behalf of the beneficiaries without proper consent from the rightful beneficiaries.

(c) Purchases Made Outside Contract Agreements: - K7, 899, 890.00

Treasury Instructions of 2004, Section 5.13.1 require that adequate internal controls must exist within each Ministry and Department, further in the instruction it also state that the controlling officers should ensure that the control objectives are met.

An inspection of the payment vouchers and project contracts entered between Council and building contractors revealed that the Council procured building materials on behalf of the contractors amounting to K7,899,890.00 without formal agreement. Hence, the audit team was unable to ascertain the propriety of the transaction.

NKHATABAY DISTRICT COUNCIL

51. An audit of Nkhata Bay District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Failure to open and maintain asset register

Treasury Instructions of 2004, Section 5.32.1 requires all Controlling Officers to maintain asset registers for all fixed assets bought using public resources in both electronic and hard copies. In addition, the circular from the Chief Secretary to the Government dated 2nd March, 2010 titled “Government Physical Assets Register”, requires the maintenance of an asset register which should among other things indicate the monetary values of the assets and their condition.

Contrary to this requirement, an inspection of financial records and inquiry from the management disclosed that Nkhata-Bay District Council does not have a fixed asset register.

(b) Misallocation of funds-K11,445,572.29

Treasury Instructions of 2004, Section 4.14.1 require that specific approval is required before any allocations can be vired or transferred between budget line items.

Public Finance Management Act of 2003, Section 25 authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/ item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded.

If the Controlling Officer is satisfied that the provision against a Programme/item will be inadequate, he may submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within same Vote. The application should be in writing and should be signed personally by the Controlling Officer.

An inspection of sampled payment vouchers for the ministry revealed that management misallocated ORT funds amounting to K11,445,572.49 without obtaining prior approval from the Secretary to the Treasury.

(c) Under collection of revenue: K95,308,024.29

Final Accountant General's Desk Instructions, Paragraph 15.5.2 requires that revenue collections shall be allocated in the accounts strictly in accordance with the classification in the annual estimates. It further states that all departments responsible for collecting revenue shall prescribe suitable Register or Forms to record the amount due for collection and the amounts collected.

A comparison between general receipts and deposit slips revealed that the Council under collected revenue from locally generated revenue sources. The Council budgeted to collect revenue amounting to K156,886,719.97 during the year under review but the actual collection was K61,578,695.00. This means there was a shortfall of K95,308,024.29.

NKHOTAKOTA DISTRICT COUNCIL

52. An audit of Nkhotakota District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) General Receipt Books For Revenue Not Recorded in Security Document Register: K58,395,425.00

Treasury Instructions (2004), Section 5.13.1 (f), (g) states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognised as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, the following control objectives are met and that resources employed are managed in an effective, economic, efficient and transparent manner.

An inspection of documents during the time of audit indicated that Receipt Books for revenue for the fees and rents amounting to K58,395.425.00 were not recorded in the document register as per regulation

(b) General Receipts not presented for audit review K48,272,025.00

Public Audit Act of 2003, Section 7 (1) (b) states that for the purposes of fulfilling the functions and duties lawfully conferred Auditor General on the Auditor General, the Auditor General and every person authorized by him shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept.

An inspection of the cash book revealed that during the time of audit, General Receipts amounting to K48,272,025.00 were not presented for audit review.

(c) Revenue not posted to the Cashbook K14,629,120.00

Treasury Instructions (2004), Section 5.9 (b) require that all transactions shall be recorded in a primary Government record or ledger, either within the records held by a Ministry with the approval of the Secretary to the Treasury and summarised in the ledgers held by the Ministry of Finance, or in a record maintained by the Ministry of Finance. One of such proper accounting record is to record each and every payment in the cash book.

An inspection of general receipts indicated that revenues amounting to K14,629,120.00 was not posted to the cashbook.

(d) Failure to submit returns on the progress of CDF Projects K150,000,000.00

CDF Guidelines Revised June (2014), Chapter 9 states that in collaboration with the ADC, the District Commissioner shall monitor project implementation and provide technical advice at regular intervals and shall do so within the normal council projects monitoring programme. DC shall compile reports of any such monitoring visits highlighting key observation made, advice provide and any corrective action taken and shall provide to the Member of parliament.

Local Authorities Accounting and Financial Management Manual of 2009, Section 13.3.1 on Outline of the Consolidated Local Authority Monthly Financial Reports require preparation of The Constituency Development Fund (CDF) return which shall analyse the CDF expenditure per Constituency.

The inspection team observed that for the period under review, the MPs did not produce nor submit CDF Reports to Nkhotakota Council as per the guideline. The amount involved is K150,000,000.00 being the total CDF funding for Nkhotakota District Council as such it was difficult to tell how CDF funds were applied.

(e) Payment Vouchers without supporting documents: K10,220,154.70

CDF Guideline Revised June (2014), Paragraph 17 (3) states that adequate documentation is obtained in support of all expenditure, a payment voucher shall be raised under the normal local authority accounting procedures with the approved internal requisition and other documents such as quotations, evaluation forms invoices and delivery notes as supporting documents

It was however, noted that the Council made payments amounting to K10,220,154.70 during the 2019/2020 financial year to several suppliers Constituency Development Fund but were not supported by Invoices, Receipts, Activity Reports, Delivery Notes and Certificates of completion/ Progress billings for office supplies and construction materials.

(f) No title documents for Council's Fixed Assets, Land and Buildings, Motor Vehicles

IPSAS 17 on recognition of Property Plant and Equipment (PPE) requires that the Fixed Assets included on the face of the Statement of Financial Position should be readily identifiable. The identification means that the Fixed Asset can be physically verified as to its presence, location and ownership. Ownership can be verified through title documents to see who has a right to the Fixed Asset.

The inspection team observed that the Council did not have title documents such as Deeds, Blue Books etc. to support ownership of the Fixed Assets contained in the Council's Fixed Assets Register and Statement of Financial Position.

(g) Failure to make a Prior Year adjustment: K217, 654,492.00

The financial statements for the year ended 30th June 2019 included an increase in fixed assets resulting from capitalization of work-in-progress (WIP) from CDF and LDF projects. The query was for K217, 654,492.00. The amount was not adjusted and the query was not resolved, the financial statements the year ended 30th June 2020 were subsequently affected in that they were also misstated by that amount

(h) Failure to make a Prior Year adjustment: K 914,746,082.00

Section 2.1.1 of the LA Accounting and Financial Management Procedures Manual (2009) states that to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years. The revaluation exercise shall be undertaken by qualified valuers.

The audit revealed that the Council had an unexplained revaluation of Non-Current Assets in Notes 8 and 9 namely, Property, Plant and Equipment of K 914,746,082.00.

(i) Misclassification of PAYE: K 98,151,863

The audit revealed that the Council classified and Pay As You Earn Tax as Employee Benefits. This contributed to the unfair presentation of the financial statements. The Misclassified PAYE amounted to K 98,151,863.

(j) Failure to provide Schedules for Financial Statement Balances

Local Authority Accounting and Financial Management Procedures Manual of 2009, Paragraph 24.6.7(a) states that the notes to the financial statements of the Local Authority shall include both narrative descriptions and more detailed schedules or analyses of amounts shown on the face of the statement of financial position, statement financial performance, the statement of cash flow and the General Rate Fund and (b) provides details about the make-up of the aggregate figures included in the financial statements.

The audit revealed failure by the Council to provide schedules for balances appearing in the Financial Statements and in the Notes to the Financial Statements. Therefore, the balances would not be ascertained thereby affecting the fair presentation of the financial statements.

(k) The majority of notes for expenses presented without prior year figures in notes

International Public Sector Accounting Standards (IPSAS) accrual stage 3 requires the presentation of the Financial Statements and notes to have prior year figures for the statements to be informative.

Contrary to the above the Council submitted the Financial statements for audit without comparative notes for expenses in the statement of financial performance. This made the fair presentation of the state of affairs of the Council to be defeated.

(l) Material Differences Between Figures in the Notes and those on the Face of Financial Statements

Appendix B of IPSAS 1 requires that information presented in the financial statements should be reliable, that is free from material error and bias and can be depended on by users to represent faithfully that which it purports to represent or could be reasonably be expected to represent.

The audit of the financial statements revealed material differences between notes figures and those on the face of the financial statements as follows;

- Note 5 on other current assets had K147,294,333 but not presented on the face of financial Statements
- Fees, Fines, Penalties, Licenses figure on note there was K69,814,130 while face of financial statements had K80,683,530 with an overstatement of K 10,869,400
- Revenue from exchange transactions figure on note was K12,725,714 while face of financial statements was K1,730,100 with an understatement of K 10,995,614
- Central Government transfers figure on note was K1,131,210,904 while face of financial statements was K1,112,616,611 with an understatement of K 18,594,293
- Other Revenue figure on note was K40,175,000 while face of financial statements has no figure with an understatement of K40,175,000
- Other Government Entities Transfer figure on note there was zero while face of financial statements had K71,882,879 resulting into an overstatement of K71,882,879

NSANJE DISTRICT COUNCIL

53. An audit of Nsanje District Council for the year ended 30th June, 2020 was completed on in 25th July, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Non-Current Assets Not Revalued:

Local Authority Accounting and Financial Management Procedure Manual of 2009, Section 16.5 states that, to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years. The difference between the revalued amount and the previous net book value of the asset shall be transferred to the Revaluation Reserve account

A review of financial statements revealed that the Council's noncurrent assets were not revalued. The figure was for the Secretariat fixed asset and does not represent the actual carrying value of the council's assets.

(b) Documents Not Produced For Audit Inspection: - K34,371,342.00

Treasury Instructions of 2004, Section 11.6.1 state that in terms of the Public Audit Act, 2003, the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating

to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

An inspection of documents revealed that the Council did not produce payment vouchers amounting to K34,371,342.00 for Social Cash Transfer (SOCAT) and Constituency Development Fund (CDF for audit inspection.

(c) Failure To Remit Pay As You Earn (PAYE) Tax to MRA: K11,998,238.40

Taxation Act of 2000, Section 102(1) states that every employer whether he be registered under the Income Tax (PAYE)(information), rules or not shall deduct income tax at the rates specified in the taxable prepared by the Commissioner from the emoluments of every person in his employment to whom these rules apply.

Taxation Act of 2000, Section102 (10) (1) of states that every employer shall pay to the commissioner the amount of any income tax deducted under rule 3(1) within fourteen days of the end of the month in which it was deducted.

An inspection of payment vouchers revealed that the office failed to remit pay as you earn tax (PAYE) amounting to K11,998,238.40 to MRA although the employees were deducted contrary to the requirements.

(d) Animal Movement Revenue Not Accounted For: K1,350,000.00

Treasury Instruction of 2004, Section 5.7.2 states that sound cash management includes collecting revenue when it is due and banking it promptly.

Upon inquiry and requesting of General receipts books and deposit slips disclosed that revenue amounting to K1,350,000,00 which was collected using VET 2 and VET 38 was not accounted for. The person responsible for collecting and depositing the revenue to government account number one told his colleagues to be depositing money to his Airtel money account. An interview with all Assistant Animal Health Officers confirmed the malpractice. Therefore, it was difficult to ascertain the banking of revenue to government account number one.

(e) Abandoned CDF Project (Phokera Police Unit): -K15,320,825.00

CDF Guidelines Revised June (2014), Paragraph 3 stipulates that on-going projects not completed in the implementation year just ended should be included in the implementation plan.

The construction of Phokera Police Unit in Nsanje Lalanje Constituency was abandoned since 2017 but payment worth K15,320,825.00 was spent on the project. A physical verification to

the site revealed that the project was indeed abandoned. After the demise of the MP who started the project, other MPs have failed to complete the project.

(f) Substandard Workmanship On Fatima Police Unit & Fatima Hall: - K19,870,870.00

CDF Guidelines Revised June (2014), Paragraph 16.5 requires that the Director of Public Works shall inspect projects in each constituency quarterly and issue a report to the DC. The report shall detail status of the projects, quality of workmanship, capacity of Area Development Committee and Project Monitoring Committee in implementing and monitoring projects.

Construction of Fatima Police unit worth K16,617,470.00 and Fatima hall worth K3,253,400.00 in North Constituency was done under substandard workmanship leading to cracked floors. The contractor was just handpicked by the MP. The projects were launched in 2017 and they are now abandoned.

(g) CDF Construction Materials not accounted for: - K12,036,960.00

CDF Guidelines Revised June (2014), Paragraph 15 (1-8) stipulates that the Project Implementation Committee (PIC) shall be required to maintain stores records that indicate for each project the materials that were received, who received and witnessed them.

An inspection of payment vouchers and other related documents disclosed that the Council bought construction materials during the year under CDF worth K12,036,960.00. However, the Council failed to produce documentary evidence to indicate the materials were received by the beneficiaries

NTCHEU DISTRICT COUNCIL

54. An audit inspection of the financial and other information for Ntcheu District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

(a) Wrong Financial Statement Cash & Cash Equivalent Amount: K12,963,534.00

IPSAS 2 on Cash Flow Statements defines Cash as actual money and on demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdraft is taken as part of cash equivalent and for the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

A review of the financial statements revealed that the Council disclosed in the statement of financial position as at 30th June 2020, a total amount of K12,963,534.00 as cash and cash equivalents, which was derived using cashbook balances instead of bank reconciliation statements' balances.

(b) No Supporting Documentation for Receivables Figure: - K10,700,000.00

Local Authority Accounting and Financial Management Procedures Manual of 2009, paragraph 2.1.5 (a) and (b) states that all sums of money owing to the Local Authority from rates, trade activities and services rendered shall be recognized as debts of the Local Authority. Such debts shall be properly recorded in the books of accounts as debtors upon raising of an invoice or a bill and all such debts shall be timely collected by the LA in accordance with the terms and conditions of the service rendered.

A review of the financial statements revealed that the Council disclosed the amount of K10,700,000.00 for receivables as at 30th June, 2020. However, the Council failed to provide evidence of invoices and bills for such debts and no reason was provided for the Council not to collect the outstanding amounts. As such it was difficult for the audit team to confirm the validity and accuracy of the receivables amount.

(c) No Schedules And Cost For Property Plant And Equipment: K169,362,950.00

“IPSAS 17: Property Plant and Equipment (PPE)” states on initial measurement that an item of PPE should initially be measured at cost or fair value where an asset is acquired through a non-exchange transaction and the cost should include all costs involved in the bringing the assets into working condition. Also, the Local Authority Accounting and Financial Management Procedures Manual of 2009, Paragraph 24.6.7(a) states that notes to the financial statements of the Local Authority shall include both narrative descriptions and more detailed schedules or analyses of amounts shown on the face of the statement of financial position, statement of financial performance, the statement of cash flow and the General Rate Fund, and (b) provide details about the make-up of the aggregate figures included in the financial statements.

A review of the financial statements revealed that the Council included the amount of K169,362,950.00 for Property Plant and Equipment on the statement of financial position without providing the detailed schedules and the cost of the PPE. As such it was difficult for the audit team to ascertain the accuracy, validity of the amount.

(d) Non-Adjusting Revaluation Of Assets Wrongly Recognised In The Financial Statements Of The Current Period: - K32,190,464,200.00

IPSAS 14, 'Events after the reporting date' describes adjusting events as events that provides evidence of conditions that existed at the reporting date and non-adjusting events as events that are indicative of conditions that arose after the reporting date, and reporting date means the date of the last day of the reporting period to which the financial statements relate.

A review of the financial statements and Council records revealed that the Council included an amount of K32,190,464,200.00 for revaluation of assets in the statement of financial position and the statement of changes in equity for the period ending 30th June,2020. However, an inspection of correspondence between the Council and the professional valuer (Ministry of Lands), and the revaluation report indicated that the process of revaluation started in late September and concluded on 14th October 2020 when the revaluation report was produced. The Council was not supposed to include the revaluation surplus in its financial statement for the period ending 30th June as it is a non-adjusting event as the process of revaluation started after the reporting period.

(e) Failure To Provide Supporting Documentation For Accounts Payables: K14,114,388.89

Treasury Instructions of 2004, Section 11.6.1 stipulates that in terms of the Public Audit Act, 2003, the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

A review of the financial statements and the schedule for accounts payable revealed that that the Council disclosed K14,114,388.89 as outstanding payables as at 30th June 2020 but did not provide source documents to back up the amount disclosed.

(f) Failure To Provide Schedules For Capital Contributed By Other Government Entities: K596,740,403.00

Local Authority Accounting and Financial Management Procedures Manual of 2009, Paragraph 24.6.7(a) states that the notes to the financial statements of the Local Authority shall include both narrative descriptions and more detailed schedules or analyses of amounts shown on the face of the statement of financial position, statement financial performance, the statement of cash flow and the General Rate Fund and (b) provides details about the make-up of the aggregate figures included in the financial statements.

A review of the financial statements revealed that the Council included the amount of K596,740,403.00 for Capital Contributed by Other Government Entities in the statement of financial position without providing a detailed schedule of the amount. As such it was difficult for the audit team to ascertain the validity of the amount.

(g) Under-Collection Of Locally Generated Revenue: - K25,761,377.74

Public Finance Management Act of 2003, Section 10 (1) (j) states that Each Controlling Officer is responsible for ensuring that, in relation to his Ministry the collection of public moneys is according to approved plans and the Estimates.

An inspection of the revenue records for the Council revealed that Ntcheu District Council budgeted to collect K171,517,800.00 during the year. However, the actual collection was K145,756,422.26 which was less by K25,761,377.74.

(h) Failure to Present Payment Vouchers for Audit Inspection: K39,930,419.56

Public Audit Act of 2003, Section 7 (1) states that for the purpose of fulfilling the functions lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept.

Contrary to the requirement mentioned above, the audit team was not provided with payment vouchers totaling K39,930,419.56 for inspection.

(i) Payment Vouchers without Adequate Supporting Documents Attached: K18,985,630.75

The Local Authorities Accounting and Financial Management Procedures Manual of 2009, Section 8.3.3 (e) requires that in every payment cycle all the supporting documents should be firmly attached to the payment voucher to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instructions of 2004, Section 5.9(a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An inspection of payment vouchers disclosed that the Council processed payment, vouchers amounting to K18,985,630.75, which had no adequate supporting documents attached. In the absence of the supporting documents, it was difficult to ascertain whether the payments made were a proper charge to public funds.

(a) Payment Vouchers Processed Manually Outside the IFMIS: K10,446,993.86

Treasury instructions of 2004, Section 5.10 states that all payments, receipts and other accounting transactions shall be entered and processed into the integrated financial management information system approved by the Secretary to the Treasury.

Contrary to the above requirement, an inspection of payment vouchers and other related documents revealed that the Council processed payments outside the Integrated Financial Management Information System (IFMIS) amounting to K10,446,993.86.

(b) Failure to Record Deceased Funds in the Cashbook: K12,395,492.96

The Local Authorities Accounting and Financial Management Procedures Manual of , Section 15.3.1 requires that all money meant for deceased estates from the Administrator General, Accountant General and other organizations shall be entered in the Paper Money Register (PMR) maintained by the Administration Department. The register and cheques shall be tendered to the Treasury cashier. The Treasury cashier shall issue a general receipt whose details shall be entered in the PMR. The Administration Department shall retain the PMR and send the general receipts back to the source of the funds.

An inspection of cashbooks and PMR revealed that the Council failed to record the amount of K12, 395,492.96 in the cash book, which it received as part of the deceased estate funds during the year under review.

NTCHISI DISTRICT COUNCIL

55. An audit inspection of the financial and other information for Ntchisi District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

(a) Revenue Not Accounted For: - K950, 000.00

Treasury Instructions of 2004, Section 5.7.2e, states that sound cash management includes collecting revenue when it is due and banking it promptly.

An inspection of security documents such as general receipt books for market fees revealed that market fee books worth K950,000.00 were collected by market officers but they were not returned together with the cash, therefore, there was no evidence to show that the cash banked was the same collected.

(b) Failure To Bring On Charge Money Within The Required Period: - K4,461,500.00

Final Accountant General's Desk Instructions of 2004, Section 7.5.1(iii) states that receipted payment vouchers, shall be returned after ten days from the last date of payment. If the vouchers are not returned within ten days, effort by the officer in-charge to follow up the vouchers shall be made. Any monies unpaid shall be brought on charge within the required period of ten days

Contrary to the above requirement, an inspection of payment vouchers and other related documents, revealed that unpaid cash amounting to K4,461,500.00 for social cash transfers was taking more than a month to be brought on charge

(c) Misallocation of Voted Funds: - K18, 500, 813.00

Treasury Instructions of 2004, Section 4.14.1 requires that all expenditures should be charged to an appropriate vote and that the expenditure should be classified strictly in accordance with estimates. The provisions further require that funds should be spent on the intended activities otherwise Treasury approval must be sought to transfer funds from one expenditure line to another as represented by codes in the Integral Financial Management Information System.

An inspection of expenditure records for the Council revealed that payments amounting to K18,500,813.00 were charged against wrong expenditure codes.

(d) Payment Of Mtukula Pakhomo Funds To Beneficiaries Not Signed For: - K124,966,800.00

Local Authority Accounting and Finance Management Procedure Manual of 2009, Paragraph 8.6.1(a) and (b) stipulate that the cashier shall ensure that all claimants have signed against their names and amounts before cash is paid; and in case of a claimant who is unable to write, the right thumbprint shall be affixed against his name and amount on the receipted voucher before cash is paid and witnessed by a person other than the paying officer.

An inspection of payment vouchers revealed that some payments for Mtukula Pakhomo amounting to K124,966,800 were paid without the beneficiary signing for the money received instead it was the cashier who was writing paid on the signing sheet.

(e) CDF Projects Appraisals Not Produced For Review: - K50,257,052.00

CDF Guideline Revised June (2014) stipulates that the Council shall appraise all new projects submitted by the Member of Parliament, the District Commissioner/Chief Executive shall assign the Director of

Public Works and other relevant sector staff to ensure that all new infrastructural projects are appraised so that they adhere to acceptable government and sectoral standards.

Contrary to the requirements above, an inspection of payment vouchers, procurement records and other related documents revealed that the Council did not provide project appraisal reports worth K50,257,052.00 for inspection.

PHALOMBE DISTRICT COUNCIL

56. An audit inspection of the financial and other information for Phalombe District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Incomplete Non-Current Assets Register: - K168,118,556.00

The circular from the Chief Secretary to the Government dated 2nd March, 2010 titled ‘Government Physical Assets Register’, requires the maintenance of an asset register which should among other things indicate the monetary values of the assets and their condition.

An inspection of the non-current assets registers for Phalombe District Council revealed that the register did not have all the assets belonging to the Council. The amount of non-current assets in the financial statements amounting to K168, 118,556.00 may not represent all items of property, plant and equipment which were in existence as at 30th June, 2020 leading to misstatement of the Financial Statements.

RUMPHI DISTRICT COUNCIL

57. An audit inspection of the financial and other information for Rumphi District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) ORT Funding Over-Spent: K15,545,703.36

Treasury Instructions (2004), Section 2.6.1(f) states that it is the responsibility of the Controlling Officer to ensure that there is no over-expenditure or over-commitment of funds.

An inspection of funding and expenditure records for the period beginning July 2019 to June 2020 revealed that some sectors of the Council over spent as compared to what they were actually funded by K15,545,703.36.

**(b) Development Funds Spent On Operational Activities:
K13,442,019.13**

Treasury Instructions (2004), Section 2.6.1 (f) states that it is the responsibility of the Controlling Officer to ensure that there is no over-expenditure or over-commitment of funds.

An inspection of development funds and expenditure records for the period beginning July, 2019 to June, 2020 revealed that the Council spent part of District Development Fund (DDF) on operational activities.

SALIMA DISTRICT COUNCIL

58. An audit of Salima District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

**(a) Non-Compilation of Annual Reports by Members of Parliament:
K134,128,180.93**

CDF Guidelines Revised June (2014), Paragraph 10 (6) requires Members of Parliament to compile annual reports for CDF projects and submit them to the Council for accountability and record keeping. An enquiry from management showed that there is no such report for the period under audit.

**(b) Payment Vouchers without Supporting Documents:
K9,560,402.00**

Treasury Instructions (2004), Section 5.9 states that controlling officers shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible. In addition, Local Authorities Accounting and Financial Management Procedures Manual (2009), Section 5.5.2 stipulates that payment vouchers must be fully supported by relevant documents such as invoices, memos, and loose minutes among others.

Contrary to the above requirement, payment vouchers amounting to K 9,560,402.00 were presented to auditors without attaching relevant supporting documents. In the absence of such documents, it was difficult for audit team to ascertain whether the expenditure made was a correct charge to public funds.

THYOLO DISTRICT COUNCIL

59. An audit inspection of the financial and other information for Thyolo District Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) General Receipt Books Not Produced For Audit-K1,487,800.00

Public Audit Act (2003), Section 7 (I) (a) requires that the Auditor General and any officer assigned by him should be given right and access to the information he deems fit for the discharge of his oversight duties.

An inspection of security documents registers along with business licence book and market fee books revealed that general receipt books issued and were used to collect revenue amounting to K1,487,800.00 were not produced for audit inspection.

(b) Payments Made In Cash Instead Of Depositing Into The Beneficiary Bank Account: K17,660,306.00

Treasury Instructions (2004), Section 5.26.5 state that all payments for all vouchers shall be made by cheque or direct debit to a bank account and a circular letter from Accountant General with reference number T4400 dated 3rd April, 2012, stipulates that payments should be made by cheque and deposited in respective accounts of the recipients of public funds.

Contrary to the above requirement, an inspection of payment vouchers for the year under review revealed that allowances amounting to K17,660,306.00 were being paid in cash instead of depositing into bank accounts.

(c) Payment Of Allowances Within Duty Station: -K5,838,000.00

Public Finance Management Act (2003), Section 10 (h) (i) states that every controlling officer should ensure that all expenditures are incurred with due regard to economy, efficiency and effectiveness and avoidance of waste and all necessary precautions are taken to safeguard public resources. Allowances are paid with the aim of subsisting the officer who is leaving duty station and spending a night outside duty station or paid lunch allowance where he/she is working outside duty station but not spending a night

An inspection of payment vouchers together with their supporting document for subsistence allowances revealed that the office paid allowances amounting to K5,838,000.00 to officers while working within their duty station doing project monitoring and supervisions.

(d) Procurement Of Goods Without Approval Of Internal Procurement And Disposal Of Assets Committee – K25,366,008.00

Public Procurement & Disposal of Assets Act (2017), Section 26(2) (a-g) outlines the functions of the Internal Procurement & Disposal Committee in all procuring and disposing entities as; ascertaining the availability of funds to pay for each procurement; approving the methods of procurement and disposal to be used in each case; approving the procurement and disposal plans for the procuring and disposing entity; appointing the chairperson of the bid opening from amongst its membership; appointing ad-hoc evaluation team for the examination, evaluation and comparison of bids; reviewing and approving bid evaluation reports and reviewing and approving any contract amendments.

An inspection of payment vouchers and Internal Procurement and Disposal of Assets Committee minutes revealed that in the period under review, the office procured some goods and services without the committees' approval, amounting to K25,366,008.00 contrary to the requirement.

(e) Constituency Development Fund Disallowed Expenditures: - K4,153,300.00

CDF Guidelines Revised June (2014), Paragraph 4 states that disallowed expenditure shall include all non-project related expenditures and all expenditures having an attribute of accruing to personal benefit shall not be drawn against the CDF.

Contrary to the guidelines, an inspection of payment vouchers for CDF revealed that the Council paid salaries for its direct staff using funds that were meant for CDF administration to the tune of K4,153,300.00.

(f) Items/Services Delivered On Site Without Witnesses From The Community: K10,202,600.00

CDF Guidelines Revised June (2014), Paragraph 15.1 states that the ADC in collaboration with the VDC where the project is located shall ensure that for each project a secure location is found to keep materials and that the PIC has chosen people to be accountable for the materials 2) the PIC shall be required to maintain stores records that indicate for each project the materials that were received, who received them and who witnessed. This will be supported by a copy of the delivery that the ADC collected with the goods. In addition to the guidelines above, the council developed a goods inspection certificate form where items delivered on site are identified and the buildings supervisor confirms them and community Chair/representative witnesses and signs on the form.

Contrary to the above requirement and controls, an inspection of payment vouchers, delivery notes and goods inspection certificates for items and services amounting to K10,202,600.00 revealed that the buildings supervisor could certify that the goods were delivered without the community representative witnessing by signing on the certificate.

(m) Misallocation of Expenditure- K18,376,687.44

Treasury Instruction number 4.14.1 of 2004 states that specific approval is required before any allocations can be vired or transferred between a programme /item within the same Vote. The section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An inspection of payment vouchers disclosed that some payments amounting to K18,376,687.44 were charged to wrong sub-items which is contrary to the above requirement. There was no evidence to show that virement of funds was sought from the Secretary to the Treasury

(n) No valuation Of The Council's Non-Current Assets:- K417,697,817.00

Section 16.5 of Local Authority Accounting and Financial Management Procedure Manual (2003) states that, to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years. The difference between the revalued amount and the previous net book value of the asset shall be transferred to the Revaluation Reserve Account.

The Council did not compile and value all assets for sectors falling under Thyolo District

Council. The schedule of fixed assets submitted for the audit and the amount captured in the statement of financial position only captured assets for the headquarters and partly, District Health Office. Assets for other sectors including Education, Water, Agriculture, Labour, Trade, Immigration, and Fisheries were not included. In addition, there was failure to present a proper value of land and Building representing true value of Land and Building held at the Council.

(o) Value of Motor Vehicles not incorporated in the Financial Statements

Section 16.5 of Local Authority Accounting and Financial Management Procedure Manual (2003) states that, to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years. The difference between the revalued amount and the previous net book value of the asset shall be transferred to the Revaluation Reserve Account.

An inspection of financial statements and supporting schedules revealed that the council did not revalue and include in its financial statements motor vehicles though the council maintains a fleet of motor vehicles and motor cycle. This exclusion or failing to disclose the basis for non-inclusion may raise questions on the picture of the financial statements.

(p) The majority of notes for expenses presented without prior year figures

International Public Sector Accounting Standards (IPSAS) accrual stage 3 requires the presentation of the Financial Statements and notes to have prior year figures for the statements to be informative.

Contrary to the above the Council submitted the Financial statements for audit without comparative notes for expenses in the statement of financial performance. This made the fair presentation of the state of affairs of the Council to be defeated.

ZOMBA CITY COUNCIL

60. An audit of Zomba City Council for the year ended 30th June, 2020 was completed on 25th June, 2021. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Failure to Introduce Members of Staff on the National Pension Scheme in the Month of July 2019

Pension Act (2010), Section 9 states that every employer shall make provision for every person under his employment to be a member of the Nation Pension Scheme.

A review of Payroll, Salary pay sheets and bank statements revealed that during the month of July the council did not comply with the Pension Act as stated above as employees were not yet introduced on the National Pension Scheme.

(b) Failure to Remit PAYE to MRA: K 78,514,015.48

Taxation Act (2000), Section 102 requires that PAYE should be remitted not later than 14 days of the end of the month which the PAYE relates to. Late remittance of P.A.Y.E attracts a penalty of 20% of the tax due for the first month and a further sum of 5% per month or part thereof for the period during which the amount remains unpaid.

An inspection of payroll and pay sheets revealed that the Council had deducted PAYE amounting to K93,733,019.93 for the year under review but only K15,219,004.45 had been remitted, leaving a balance of K78, 514,015.48 which remained unpaid as at the end of the year under review.

(c) Non-collection of shop rentals: K1,242,800.00

Treasury Instructions (2004), Section 5.6.2 states that the Controlling Officer of a Ministry or Department must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for identification, collection, safeguarding, recording and reconciliation of information in respect of revenue.

When an audit was conducted by the Council's internal audit team in December 2020 on shop rentals located in Zomba Bus depot and central market, there were several defaulters ranging from 6 months to 4 years. Efforts to recover these rental arrears by trade and Commerce were successful except for arrears from butchery shop no 12 in central market allocated to Mr Chikhaula and Bus depot shop number 11B allocated to Mr Christopher Jana. These are persistent defaulters. Mr Chikhaula has rental arrears of K440,000 while Mr Christopher Jana has rental arrears accumulated since January 2018 amounting to K802,800 (Bus Depot report).

In addition, stores shops number 8 and 9 allocated to Tiwalenge Njunga and Thokozani Masiye, have never paid rentals since allocation in September, 2019. The shops are operating.

PART IV

CONCLUSIONS AND RECOMMENDATION

CONCLUSION

61. The findings have been classified into eight (8) categories which have been summarized as follows:

ix. Expenditure Management

- Unaccounted for Funds
- Expenditures made without following procedures (Irregular expenditure)
- Misallocation of Funds (funds spent on different functions other than which parliament approved)
- Failure to remit PAYE taxes to MRA
- Failure to process transactions through IFMIS
- Failure to administer deceased estates
- Embezzlement of deceased estate funds
- Failure to recover loans and advances

x. Financial Statement related issues

- Financial Statements Balances without a note or with a note different from the amount on the face of the Financial Statements
- Cash and Bank- Discrepancies in Amounts Between Financial Statements and Bank Statements
- Wrong Amount of Cash and Cash Equivalent shown in the financial statements
- Non-Adjusting Revaluation of Assets wrongly recognized in the financial statements of the current period
- Differences in the figures Presented in the Statement of Comparison of Budget & Actual and Cashbook
- Failure to depreciate, to keep fixed Asset Register and to revalue
- Failure to depreciate Non- Current Assets
- Failure to include depreciation charges opening balances from prior year Statement of Financial Position
- Failure to keep fixed Asset register
- Failure to Revalue Council Assets

- Non-Current Assets not in the Financial Statements
- Differences Between the Ledger and Bank Account Balance
- Failure to Safeguard Council Property
- Financial Statement Balances Drawn from Outside IFMIS
- Ownership Documents for Property Not Produced
- Lack of title deeds for Council's assets
- Cost of Non-Current Assets without supporting documentation/records
- Non -Current Assets Written off without Authority
- Non-Provision of Supporting Schedules
- Cashbook Containing Payments from July 2020 Without Disclosure Notes in The Financial Statements
- Cash and Cash Equivalents- Missing Information
- Failure to provide schedules for Capital Contributed by Other Government Entities

xi. Procurement

- Procurement Of Goods And Services Without IPDC Approval
- Single sourcing without approval of PPDA

xii. Project Management

- Projects Implemented Not in The District Development Plan
- Over Expenditure On Borehole Projects
- CDF projects carried without Project Application Form
- CDF without Project Implementation Committee (PIC) Involved
- Under Utilization of the Constituency Development Fund
- CDF Project Not Implemented
- Development Funds Spent On Operational Activities
- Items/Services Delivered On Site Without Witnesses from The Community
- Substandard Works
- Untraceable CDF Projects
- Incomplete works

- CDF Projects not Produced for Review
- Maintenance of Old Borehole under Borehole Projects
- Awarding Contracts to unregistered Contractors
- Abandoned CDF Project (Phokera Police Unit)/ Nkando police Unit
- Failure to Produce Title Deeds for Audit Inspection
- Contracts not Presented for Audit Inspection(Borehole)
- IPDC Minutes Not Presented for Audit Review
- Failure to Present Formal Contract Agreement for Audit Inspection
- Works fully paid for but not Completed
- Contracts not Presented for Audit Inspection(CDF)

xiii. Receivables Management

- Failure to collect revenue from debtors for over two years
- Non -Payment of Receivables
- Receivables without invoices
- Invoices not produced for audit Inspection
- Outstanding Accounts Receivables (Debtors)

xiv. Record Management

- Money not entered in the paper money register
- Money receipted not recorded in the third party money register
- Purchases made outside contract agreement
- Failure to Comply to CDF Guidelines in Awarding Contract for Boreholes
- Failure to produce CDF progress reports
- Non-Compilation of Annual Reports by Members of Parliament
- General Receipts Not Recorded in the Security Document Register
- Payment Vouchers Made Without Supporting Documents
- Payment Vouchers not presented for Audit
- Failure to Record Deceased Funds in the Cashbook

- Failure by the Global HRM System to Capture Properly Outstanding Balances for Advances
- Monthly Receipts and Payments Statements for Deceased Estate Not Produced

xv. Revenue Management

- Under Collection of Revenue
- Revenue not accounted for
- Underbanked revenue
- Revenue spent at source
- Failure to Present General Receipt Books for Revenue Collected
- Market fee deposit slips without Revenue Collecting Sheets Summary
- Delivery Notes for Market Fee books not Produced for Audit Inspection

xvi. Payables Management

- Failure to Provide Supporting Documentation for Accounts Payables
- Invoices for Payables not provided for audit
- Some Payables Shown in the Financial Statements without Justification of Documentary Evidence

Recommendation

62. In the course of my audit of the financial statements of Local Councils, each District Commissioner and Chief Executive was sent appropriate management letter with recommendations; a few have submitted their responses within the period required under Section 14 of the Public Audit Act.

Note that the recommendations in this report go beyond those already made in the individual Management Letters. It is my plea therefore that each Controlling Officer, the NLGFC as well as Ministry of Local Government should critically look at these recommendations and act accordingly.

These recommendations include: -

- (1) The Councils should speed up the process of getting title deeds for all their assets and thereafter including them in the books and financial statements

- (2) The NLGFC should be strict in ensuring that the Directors of Finance and accounting staff are maintaining proper books of account and adhering to the IPSAS accrual stages two (2) and three (3) as the case may be for each Council.
- (3) There is need to improve on the presentation of Financial Statements, especially on the notes to include comparative figures for the previous period.
- (4) The Councils need to strictly adhere to the Finance, Accounting and Procedures Manual on all aspects of record keeping and financial reporting.
- (5) Disciplinary procedures should be established for officers who deliberately violate accounting reporting procedures.
- (6) Each payment of Subsistence Allowance which is irregular should be investigated
- (7) All funds which have not been accounted for should be accounted for and the responsible officers dealt with in accordance with MPSR
- (8) All irregular expenditures should be probed further and responsible officers dealt with in accordance with MPSR
- (9) All those responsible for misallocation of funds without following the due process should face disciplinary action.
- (10) Investigation should be instituted for all payments which were made for non-existent and incomplete CDF projects.
- (11) All unjustified overpayments need to be investigated
- (12) Councils that failed to process some transactions through IFMIS should be probed as to why this was not done and appropriate action taken.
- (13) Councils that failed to remit PAYE to MRA need to explain and justify this anomaly
- (14) Money which is due to a deceased estate and has not been paid, must be paid immediately.
- (5) The Council that failed to collect loans and advances should come up with a plan on how they will collect them.
- (16) The Controlling Officers need to ensure henceforth that Fuel registers and logbooks are regularly checked and monitored and that each Motor Vehicle has a Maintenance File which is regularly updated and reviewed by Management.
- (17) All procurement flaws should be investigated.

- (18) Controlling Officers must ensure strict adherence to procurement laws and regulations
- (19) All project management flaws especially on CDF projects must be investigated.
- (20) The Controlling Officers must ensure strict adherence to CDF and other Funds guidelines and need to demand monthly reports on the same, taking disciplinary action against any officer in violation and reporting to law enforcement agencies for any member of parliament in violation.
- (21) The song of poor record keeping has been sang for far too long. Any officer responsible for missing vouchers, failure to attach necessary supporting documents should face disciplinary action.
- (22) The Controlling Officers must on a monthly basis monitor all expenditure to ensure that all payment vouchers have supporting documents intact and that all payment vouchers for that particular month are intact.
- (23) The Controlling Officers must within a month of receiving this report, come up with a plan on how they will collect outstanding debts from their clients.
- (24) All revenues not banked should be banked within seven days of receiving this report
- (25) All revenues not Accounted for must be accounted for within a month of receiving this report.
- (26) All revenue related documents not produced for audit inspection must be produced within 14 days of receiving this report.
- (27) All officers who did not account for revenue under their care must face disciplinary action.
- (28) The Controlling Officers need to ensure henceforth that Stores registers are on a monthly basis checked and monitored and reviewed by Management.
- (29) The Controlling Officers should always ensure that all queried issues by the auditors are addressed during the period or in isolated cases during the fourteen (14) day window period.
- (30) Presentation and format of financial statements should be given a thorough and quality check by both the Council and NLGFC
- (31) Issues that qualifies the accounts should be given high priority in terms of resolving the matters and should never be repeated.

Performance Based Financial Disbursement should continue to be a criterion for aid, grant, funding or any form of financial support to the Council.

63. Acknowledgement

I wish to place on record my profound gratitude and appreciation to staff in my office, auditors, who carried out their duties during the audit of the Councils.

I also wish to acknowledge the assistance and cooperation rendered by the Ministry of Finance, Economic Planning and Development, the Accountant General, Ministry of Local Government and Rural Development, the National Local Government Finance Committee, District Commissioners, Chief Executive Officers and their staff during the period under audit. The cooperation enabled me to obtain information and documentation for the audit in a timely manner.

Special thanks and appreciation to the World Bank through the Governance to Enable Service Delivery (GESD) Project for providing the finance for this audit to happen.

September, 2021
LILONGWE

GLOSSARY

Unqualified Opinion

An unqualified opinion is expressed when the auditor concludes that the financial requirement gives a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (ISSAI 1700.16).

When expressing an unqualified opinion, the opinion paragraph of the Auditor General's report requires that the financial requirement give a true and fair view or present fairly, in all material respects, in accordance with the applicable financial reporting framework.

Adverse Opinion

Adverse Opinion is expressed when the effects of a disagreement is so material and pervasive to the financial requirement that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial requirement; and (ISSAI 1705.8)

Qualified Opinion

Qualified Opinion is expressed when the auditor having obtained sufficient appropriate audit evidence concludes that there are material misrequirement in the financial requirement or if the auditor cannot obtain adequate evidence on aspects of the audit. Qualified opinion is issued when the misstatement or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. It is expressed as being 'except for' the effects of the matter to which the qualification relates. (ISSAI 1705.7)

Disclaimer of Opinion

Disclaimer of Opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial requirement. A disclaimer opinion may also be issued considering the potential cumulative effect of uncertainties even when all audit evidence is received. (ISSAI 1705.9; 10) (ISSAI 1705 P10)

Emphasis of Matter Paragraph

Emphasis of Matter paragraph refers to a matter appropriately presented or disclosed in the financial requirement that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial requirement. (ISSAI 1706.5)

Modified Audit Opinions

The auditor appropriately modifies the opinion in the Auditor's report when the auditor:

- Concludes that, based on the audit evidence obtained, the financial requirement as a whole are not free from material misstatement; or
- Is unable to obtain sufficient appropriate audit evidence. (ISSAI 1700.4;6;17) (ISSAI 1705.6)
- Determines that the auditee did not comply with responsibilities prescribed by the financial reporting framework to:
- Achieve fair presentation of financial information when it is a fair presentation framework;
- Fulfil all requirements of the financial reporting framework when it is a compliance framework. (ISSAI 1700.18;19)
- Any additional audit requirements, such as non-compliance with legislation or internal control weakness which has a material or pervasive effect on the financial requirement as it is not adequately disclosed or accounted for. (ISSAI 1705 P4; P5; P6)

Other Matter paragraph

Other Matter paragraph includes findings relating to matters relevant to the users of the report as under the Emphasis of Matters paragraph but not presented or disclosed in the financial requirement. The auditor includes this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the report (ISSAI 1706.5; 8; P5)

Other matter paragraphs normally include control weaknesses, non-compliance with laws and regulations as applicable.

Pervasive

Pervasive is a term used to describe the effects on the financial requirement of misrequirement or possible effects if any that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasiveness of the finding will determine the kind of modified audit opinion which will be issued.

Pervasive effects on the financial requirement are those that, in the auditor's judgment:

- Are not confined to specific elements, accounts or items of the financial requirement;
- Represent or could represent a substantial proportion of the financial requirement; or

- Fundamental to users' understanding of the financial requirement. (ISSAI 1705.5)

The auditor selects the most appropriate modified opinion from the options described earlier.

KEY PLAYERS IN PROVIDING POLICY DIRECTION OF COUNCILS

- 1) Ministry of Local Government; and
- 2) National Local Government Finance Committee

The Ministry of Local Government is the highest authority in the Local Government System and is mandated to perform the following functions;

- (a) Coordination and facilitation of accelerated local governance and social stability of District Councils.
- (b) Coordination and facilitation of socio-economic development of rural areas.
- (c) Provide internal Audit, Finance, and Administrative Services.

The National Local Government Finance Committee (NLGFC) is a body established under the provisions of Section 149 of the Constitution and regulates the Local Authority accounting and financial management system. Among others, the roles of the NLGFC include the following:

- (a) Providing policy guidelines regarding the Local Authority accounting and financial management system;
- (b) receive all estimates of revenue and all projected budgets of all local government authorities;
- (c) make recommendations relating to the distribution of funds allocated to local government authorities, and vary the amount payable from time to time and area to area according to, and with sole consideration of, economic, geographic and demographic variables;
- (d) Ensuring that Council budgets are prepared in accordance with policy guidelines and set procedures and that development programmes are in line with national priorities;
- (e) prepare a consolidated budget for all local government authorities and estimates after consultation with the Treasury, which shall be presented to the National Assembly by the Minister responsible for Local Government before the commencement of each financial year;
- (f) Providing technical support and supervision in the preparation of Local Authority final accounts;

- (g) Facilitating the external audit of Local Authority final accounts by the Auditor General;
- (h) Following up on audit queries arising from the audit of Local Authorities and imposing surcharges on officers responsible for financial mismanagement:

Constituency Development Fund

Constituency Development Fund (CDF) is a fund which was established in 2006/2007 financial year to cater for immediate to short term projects as initiated by Members of Parliament.

General Resource Fund

The General Resource Fund (GRF) represents unconditional grant by Central Government to the Local Authorities in line with Decentralization Policy.

Sector funds

Sector funds represent conditional grants from Central Government to the Local Authorities in support of the devolved (Other Recurrent Transactions) functions.

Sources of Revenue

The major sources of locally generated revenue for the Local Authorities include property rates, market fees, collections from commercial undertakings, user fees and charges and business permits.

